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Problem

**THE SOCIAL AND INDUSTRIAL
PROBLEM**

THE SOCIAL AND INDUSTRIAL PROBLEM

A Brief Introduction to the
Study of Social Economics

By

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Preface

THE following pages contain the substance of a series of lectures delivered in Twickenham in the winter of 1919-20. The interest which was shown in those lectures has encouraged me to believe that they may with advantage be made available to a wider circle.

The growing power of the workers, both in the industrial and political fields, necessitates that they should possess adequate knowledge of the root conditions of industrial and social well-being. Numerous organizations are doing what they can to spread this essential knowledge; but the field is wide enough to demand the help of every individual who is able and willing to share in the labour.

The method adopted in arranging these lectures was governed by their immediate purpose, which was, not to provide a course of study for students of economics, but to convey a knowledge of social and economic facts to those workers who are keenly interested in the practical problems of the time, but to whom the merely academic makes little appeal. We began, therefore, with a brief description of existing conditions with no attempt at analysis, a bird's-eye view of the whole problem presented as a clear-cut picture, in order that the essential features of the problems for which solution is sought might remain clearly in the mind when the intricate details come to be discussed.

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Furthermore, it was evident that, if the teaching was to be convincing, if it was to appeal to the audience as genuinely concerned with the pressing problems before them and not as irrelevant metaphysics, the nature of existing conditions must be stated frankly and without conventional gloss. Teaching will be effective in proportion to the confidence felt in the teacher; and the confidence of the workers will not be secured, and will not be deserved, if the teacher attempts to slur over the worst features of modern life lest their frank recognition should add to the bitterness and resentment which so many workers vaguely feel when they contemplate the miseries which overshadow the lives of great numbers of their fellows.

The references to the Class War are made in this way. It is the common practice of orthodox circles to scout the suggestion that there is any such thing as a Class War, and to look upon it as the outcome of a diseased imagination. The fact, however, remains that a very large number of the workers who take an active interest in these questions regard the Class War as an indisputable fact. *There is* an aspect of the relations between classes which presents itself to this section of the workers as one of mutual hostility and which is described, more or less epigrammatically, as war. The teacher who denied the existence of this Class War would render his whole work futile. His hearers would not regard him as dealing with *realities*; and the whole of his teaching, (whether good or bad in itself) would be suspect. It is better to admit the fact of the Class War, and to show its real nature by explaining the economic

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relations between the various classes in the State. Thus it appears that the phrase Class War merely refers to certain of the phenomena and the undoubted consequences of a competitive system working under the governing impulse of self-interest. Ignored, undefined, the ominous words Class War appeal to the emotions, by their reiteration inflame the passions, and seem to excuse in advance any warlike measures the workers may be urged to undertake on their side. Frankly admitted and defined, the facts summed up in the Class War become susceptible to rational consideration; and the remedy may be seen to be, not destructive violence (the characteristic feature of war), but social reorganization.

If we can secure the rational consideration of the Class War, the fact will emerge that the dominant cause of these mutually hostile relations is to be found in the common human nature of all classes; and there will follow a recognition of the truth that the complete destruction of one class by the most effective measures of war will leave the same problem among the survivors if the cancer of individual selfishness is not eradicated or effectively checked.

This brings us naturally to that most important fact that social regeneration is not merely a matter of reshaping the social machine. It is infinitely more a matter of recreating the social spirit. In short, we are dealing with a problem which is predominantly "spiritual." The product of the social machine in the shape of human happiness will depend, not upon the character of the machine imposed upon a people to whom it may be unsuited, but upon the spirit

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which emanates from the people, and which finds in the machine a fit medium through which to work.

Whatever the sins of commission in this book, there is no doubt that it may be charged with many sins of omission. It can only be said in extenuation that it does not profess to deal with or even to refer to every phase of the enormous problem with which it is concerned. If it succeeds in awakening some interest in these questions among those who have hitherto had no opportunity of considering them or who have impatiently swept them aside as mere web-spinning designed to entangle and confuse the worker, it will have achieved its purpose. The numerous aspects of the social and industrial problems with which it does not deal will, it is believed, find a readier and more harmonious solution from a study of the bird's-eye view of the whole which is here presented.

A. H.

RIVER DEEP,
CROSS DEEP,
TWICKENHAM.

December, 1920.

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CHAPTER 1

INTRODUCTION

The Shifting of the Centre of Power to the Workers—Apathy of Underpaid Labour—Difficulties and Success of Industrial Action—Slow Growth of Political Co-operation Hastened by the War—Possible Advent of a Labour Government—Important that the Workers be Fitted for the Task—The Purely Analytic Methods of Most Writers on Political Economy—Human Society not Rigid, but in a State of Continuous Change—Necessary to Understand the Nature and the Direction of its Evolution.

THE past generation has seen a slow but certain shifting of the centre of Power from the wealth-owning sections of the community to the general body of workers. This movement has progressed farther and faster in the industrial than in the political world. And it is natural that this should be so. Among "average" men and women immediate personal interests make a more direct and effective appeal than do the remoter interests of the community, and lead more readily to co-operative action. At a time when the man's whole energies are absorbed in securing a livelihood for his family, while, at the same time, that livelihood is continually threatened by economic conditions working in a purely competitive system, it is easy to understand that the gloomy cloud that

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hangs for ever over his life leaves him little opportunity and less inclination to concern himself with matters not directly affecting the welfare of his dependents and himself.

Hopelessness is perhaps of all things the most destructive of the qualities of energy, co-operation and imagination on which the progress of the race so greatly depends; and it is difficult to appreciate to the full the immensity of the task undertaken by those early trade unionists whose object was to give coherence and a common purpose to the amorphous mass of labour, and to weld these countless human grains into a material fit for the construction of a stable and prosperous industrial society. The seed which was sown under such discouraging conditions has borne ample fruit. At the present time there are in this country alone about six million organized workers associated in a large number of trade unions, which themselves are developing an increasing tendency to unified action in the industrial field.

The growth of political co-operation among the workers has necessarily lagged far behind the industrial. The political interests of the individual are less easily perceived, and their neglect less acutely felt. The centre of political action is remote, and the individual's influence thereon is, at the best, obscure. Co-operation in things political lacks the stimulating sense of conflict which accompanies industrial struggles. Its work is less spectacular, and its effects too indirect, too much matters of the future, to stir the inert and sluggish imaginations of the mass. Moreover, the occasions of political activity are to the mass of the electors too rare to provoke that continuous interest

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without which steady political purpose is wellnigh impossible. To many this is doubtless as it should be. The passion, the heat, the raucous cries, the abuse and counter-abuse which loom so largely during our general elections seem to them a degradation, a violent advertisement of national disunion, and the apathetic indifference of the intervening years a welcome sign of a fundamental national unity. To others, however, this apathy is no evidence of unity, but rather of the contemptuous indifference, born of a sense of the futility of mere political talk, which is becoming more and more obvious among powerful sections of the people; and the possibility that the energy which is dammed and powerless in the world of political action may be diverted into industrial action for political ends is to many a matter of grave concern.

The political attitude of the workers is rapidly developing. The world upheaval has merely hastened a movement which was actively progressing in the years before the War. The present position is in many ways confusing and its drift obscure. The enormous catastrophe which has shaken the very foundations of European civilization and stirred the waters to their depths has left as its legacy a welter of cross-currents which, like the sea upon some angry bar, seem to lack all clear direction and definite purpose, and to possess only the power of destruction and death. And yet we can hardly doubt that beneath all this riot and confusion the great tide is steadily rising with the slow inevitability of fate, and that it is destined to sweep away many an ancient landmark and to remould the face of the world into shapes

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already dimly discernible before the tidal wave of war swept over us.

It may be, as some believe, that the reins of government will pass into the hands of Labour in the near future. It may be that the political development of the workers is not yet sufficiently advanced to make their early success probable. Few, however, will deny that the advent of a Labour Government is a possibility of the next ten or twenty years. For good or for ill, this prospect must be faced.

If this change is inevitable, if Power, active and determined, untrammelled by precedent, with eyes fixed upon the future and back turned resolutely upon the past, is to pass finally into the hands of the workers, it is above all things essential that they should be fitted for the task. A mere vague, impatient idealism may easily destroy the delicate and complex fabric of human society, and resolve it once again into a mass of warring atoms. The capacity of sane judgment is necessary. The workers must understand the essence of those countless inter-relations, both between sections within the country and between the country itself and others, on which depend the production and distribution necessary to the support of so dense a population; they must understand even more clearly that most difficult and elusive factor in the problem—human nature itself, if they are successfully to “remould the world according to their heart’s desire.”

To achieve this end education is necessary; not the mechanical education of the schools which may make of the scholar a more or less efficient clerk, but which has no relation to his after-life as a member of

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a human society ; but one which will develop his faculties as a human being, which will enable him to see clearly the nature of the ills from which the social body suffers and to trace those ills to their roots, to recognize that human life moulds and is moulded by the conditions in which it exists, that greed is a disruptive force, and that by mutual service and mutual affection alone can human society be welded into one harmonious whole.

The object of these pages is to convey at least the fundamentals of such an education, and to offer such a picture of social and industrial evolution as will enable the worker to approach the problems before him with clear vision, and with calm and dispassionate judgment.

The general practice of writers on Political Economy is to take the economic complex as it stands, divide it into its component parts, and inquire into the nature of the laws which may govern the action of each under the assumed conditions. Thus we shall commonly find separate chapters dealing with such things as rent, interest, labour, capital, value, exchange, and so on, the root conditions of the social life of the community being regarded as stable and unchanging. This method of approaching the subject may have advantages of its own, provided the student enjoys the aid of a teacher in reassembling these disjointed members of the economic state and in presenting them under the actual conditions of a living, breathing organism. Without such reinterpretation, however, we cannot obtain from such works a true understanding of the state of society whose conditions of existence we are investigating.

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The essential fact of human society is that it is not a stable condition whose laws can be set down in rigid formulæ. It is in a state of continuous and indeterminate change, resulting on the one hand from the growing power of man over external nature, and on the other from the subtle, immeasurable variations in human nature itself. Human society is an organic structure; and we can only learn the character and mutual relation of its parts and its adaptability to new conditions by tracing its organic development from its more primitive forms. As, however, our object in delving into the past is to learn the real nature of the problems which face us in the present, it will be of assistance if we review briefly the leading features of modern industrial society and the ills which so many men, in devious ways, are seeking to cure.

CHAPTER II

THE PROBLEM

Review of Modern Conditions—The British Islands as a Centre of World-wide Influence—Its Relations with the Outer Empire—With the Rest of the World—The International Question Involves one Group of Problems—The British Isles : Distribution of the Population : the Drain to the Towns—Can Social Conditions be Controlled by the Human Will or are they Uncontrollable ?—Our Problems not Purely Local—The Conditions of an Industrial Town : Housing : Rent : Man a Land-Surface Animal : Work : Wages : Unemployment : Competition : Price : Supply and Demand : Wealthy Classes—Capital—Interest—No Short Cut to a Solution of the Social Problem.

LET us take a map of the world. We observe two small islands, coloured red, lying off the north-western coast of Europe, almost lost in the immensity of land and water about them. Elsewhere we see vast stretches of land (so vast as to dwarf these islands into insignificance) also coloured red. What is the nature of this apparent identity of character? Is the whole an organic structure, growing, developing, ever-changing, of which the pulsing heart lies in these islands; or is it a merely artificial fabric, held together by mechanical means, and destined to break up under any blow of more than common strength?

The seas are scored with many a line of ships. Are they mere incidents which we may regard with indifference; or are they in very truth arteries through which is flowing the life-blood of the people, arteries

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whose severance must cause this country to bleed to death?

Observe those countless millions beyond the seas. Can we do without them if we would? *Ought we to do without them if we could?*

What is the secret of that system which can make these small islands the radiant point of so far-flung an influence? Is it merely the result of greed and rapacity, the armed robber preying upon the defenceless; or is it a manifestation of the inevitable law of growth under which human society must pass through many an intermediate and perhaps unpleasing form in its progress to higher things?

The thoughts that come to us when we look upon the widespread British Empire come with hardly less insistence when we note the vast populations dwelling in other parts of the world. Year by year our fate becomes more closely interwoven with theirs; and it behoves us to learn how, out of this growing association, we can secure the maximum of human good.

We have here one group of problems which we may classify as the "International Question," embracing on the one side our human relations with those outside our borders, and on the other the more purely economic facts concerned with foreign trade.

Let us now turn to a map of the British Isles. If we have any imagination at all, we cannot fail to be struck by the fact that the population is collected into dense masses in extremely small areas, while outside those areas the population is so small as to be barely noticeable, dwindling as its distance from the great towns increases, until in the more remote parts of Scotland and Ireland there appears an almost un-

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relieved desolation. If we try to see this process as a moving picture over the past hundred years, the great towns stand out like the black depths of hideous whirlpools into which are sucked greedily, remorselessly, inevitably, all that is best in the life of the countryside.

Here we have another group of problems which we may summarize under the head of the "Distribution of Population." Is it a good thing that mankind should be herded into these enormous compounds? Is this process *in fact* a necessary and inevitable part of human destiny; or is it rather the result of those selfish instincts which may dominate the childhood of the race but which, in its maturity, the race can control or even, by wise direction, supersede? This question is of the very first importance. If it is true that the influences which have hitherto governed the development of human society are not blind and uncontrollable; if it is true that the Potter's Thumb which has shaped and is shaping the plastic clay of human life may be made subject to human will; then in all our inquiries into the social and economic conditions in which we live we must keep always in the forefront of our minds this question: Are these conditions inherently beyond our control, or are they capable of change by an exercise of the human will?

Let us put the maps aside. They are indispensable in so far as they offer us a bird's-eye view of the country we have to explore. Such a view may enable us to perceive that our problems are not purely local, and that there exist between distant peoples relations which are vital to each, but which may, in the absence of a wide perspective, easily be overlooked. We

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must, however, get into closer touch with things before we can see with any distinctness the real features of that human society in whose life and development we are interested.

Let us therefore visit one of our great industrial towns and observe the conditions on the spot.

As we approach the town we note cheerful houses, bright, airy, clean and comfortable, set in verdant grounds; and we feel instinctively that life must take a gracious and kindly form if reared in such pleasing surroundings. We draw nearer the heart of the town. The houses grow smaller and more closely set; until at length we find ourselves in a wilderness of narrow streets in which the houses crowd so densely as to shut out almost the very light and air. Indeed, there is not room on the surface of the earth for the enormous concourse of human beings; and their dwellings are piled one above the other like bunks in the confinement of a ship's cabin.

The strange contrast between the conditions under which people live provokes our curiosity; and we are told that it is due to "Rent." Rents, we learn, are higher in the central parts of the town; and the unlucky dwellers in those parts cannot afford the rent of more than two or three rooms.

Rent! Here is one of the things we must try to understand. What is it? Whence comes it? Consider this small globe of ours rolling through space about the sun, and man, a creature of its surface. He is born, he lives and dies upon it. He cannot live beneath nor above it. He cannot even drop off it. And yet, in this country, he has for practical purposes no legal right to be on it, and can only build a

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home there if he is prepared to pay, and can find a landowner willing to receive, "rent" for the spot on which it rests. The economic fact we know as "rent" may be proper enough, may be evidence of a progressive human society. We shall learn something of that in due course. One thing, however, is certain. If the crowded slum and the vacant countryside owe their condition in the smallest degree to the institution of rent, it behoves us to learn what we can about it, so that we may be able at least to remedy so much of its evil consequences as are capable of human treatment.

What does this crowd of town-dwellers live upon? It is obvious that they cannot grow wheat or rear cattle, seeing that there is hardly room for a blade of grass in the spot at their disposal. We are informed that they must "work." Each one has a certain amount of muscular energy; some have also definite training. They must find somebody who is in want of the energy and training they possess. He will give them something in return; and they themselves can then exchange this something, their daily or weekly wage, for food, clothing and shelter.

And if they can find nobody who is willing to buy their labour? Why, then they must beg, borrow, steal or—starve. If they were members of some wandering tribe they could doubtless find food for themselves; but the industrial civilization with which we are concerned has shut off that way of escape, and left none but the very unpleasant alternatives suggested. "Unemployment" is clearly an evil for which a remedy must be found.

Suppose these people are lucky enough to find

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somebody willing to buy their muscles or their brains. We know what they give him. What does he give them, and who determines the amount he gives?

"Well," replies our informant, "of course, he doesn't give more than he is bound to give. You see, these people of muscle or brain, if they have nothing else, must find employment or starve; and so, if two of them are after the same job, each will be willing to sell his labour, if the worst comes to the worst, for just enough to keep him alive. The man who buys his labour takes advantage of this and gets him cheap." What becomes ultimately of the man who does not get the job is another question.

This is the curiously non-moral state of society which the professional economist is often forced to assume if his theories are to receive a shape clear-cut and definite. And it must be admitted that it is in parts not far from the truth. Although the hard outlines of this picture have been somewhat softened in practice, the moral atmosphere of the "labour market" is still more that of a band of pirates than of a body of fellow citizens. However this may be, there emerges from it another of our problems, "the development of the wage system."

We continue our inquiries, and ask how much of the food and other necessities of life the labourer can get for his "wage," and who fixes the amount. We learn that the individuals who produce food and clothing undertake that necessary task voluntarily, with the express intention of selling their produce to the labourer for as much of his wage as they can compel him to pay. If there are few producers to sell and

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many labourers to buy, then the advantage lies with the former; and they can dictate a price up to the limit of the labourer's capacity to pay. If there are many producers and few labourers "the boot is on the other leg."

Here we get a glimpse of those dim shapes, competition, supply and demand, real wages, price and exchange value, which play so great a part in the science of political economy, and a still greater part in the actual life of the society in which we live, and whose birth and development we must get to understand.

We recall those pleasant houses on the outskirts of the town, and ask who live in them. Some, we are told, are dwelt in by a special class of workers—lawyers, doctors, mill managers, and the like; others by shareholders in the factories in the town. These last are, it appears, in some cases men who have been hard-working and saving and who have used their accumulations to build the factories in which the town-dwellers find employment. Others are the sons or daughters of fathers who have built such factories and have left them to their children. These factory owners, whether they are individual owners or members of groups of owners, as in the case of what are called "Limited Companies," are said to be owners of "Capital," and draw from the factories "Profits" or "Interest."

Here we have another noteworthy feature of our modern society—a considerable number of people who consume food and wear clothing which they themselves do nothing by their own personal labour to produce, but to which they have a right so long as

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they own the instruments without which that production could not take place.

Many other striking details of our social and industrial life will emerge if we pursue our search; but enough has been seen to give us a sufficiently clear view of the variety of the problems with which we have to deal, and the startling contrasts those problems involve. The right to live and the opportunity to work, rent and interest, capital and labour, money wages and real wages, trade, price, exchange, riches and poverty, nobility and baseness, sacrifice and greed, sorrow and tears on one side, joy and happiness on the other, and—most terrible feature of all—songs and laughter arising from the midst of obscenity and filth.

Little wonder if some stand aghast at the fearful complexity of the problem, while others, hopeless of a solution, turn aside. Still less wonder if some, generous of soul but impatient of spirit, seeing no way through the tangle, unable to trace the thread by means of which the knot may be unravelled, cry out for a knife which shall cut it at a blow.

The true lesson for us all is that there is no short cut out of the morass through which the world is floundering, and that it is our first duty to apply ourselves diligently to a study of the facts, putting aside all passion and prejudice, and seeking just the truth, however pleasing or unpalatable, however hopeful or discouraging, it may prove to be.

It is unnecessary to elaborate this description of present conditions. They are matters of daily observation. For a more detailed statement the reader may turn to Charles Booth's "The Life and Labour of the People of London," or Seebohm Rowntree's

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"Poverty." The publications and reports of the Local Government Board give much statistical information, and the reports of the Medical Officers of Health of the great towns amplify the details. Many writers deal with conditions during the past century. Karl Marx, in "Capital," gives much gruesome information as to the early part of the capitalistic period. Thorold Rogers in his various works offers a valuable insight into the general position of the mass of the people from the fourteenth century onwards. The truest reflection of current conditions is probably to be found in the daily Press. Its endless series of pictures of wealth and poverty, misery and gaiety, vice and goodness, greed and selfishness may give the sympathetic reader a true conception of the state of things in the world to-day.

CHAPTER III

PRIMITIVE MAN

Primitive Man : No Organized Society : Food : Property : Contrast with Modern Society : Free Access to Nature : No Rent : Individual Isolation : No Co-operation : Abundance and Want Alternate : Advance Impossible without Organization—The Capital of Primitive Man : not the Result of Saving : Owned by the User : Result not Increase of Wealth, but Increase of Leisure : the Position and Effects of Capital now Reversed : the Need of more Perfect Social Organization to Recover the " Advantages " of more Primitive Conditions—No Differentiation of Products and therefore no Trade : Trade takes its Rise at a Later Stage of Human Progress.

WE have seen something of the fruit, both life-giving and poisonous, that industrial civilization has produced. It is now necessary to get back to the seed-time, and to learn how this harvest of good and evil has come into being; to learn also something of what is essential if the tares are to be separated from the wheat. Let us, therefore, consider the life conditions of primitive man before the appearance of organized society. It is by no means waste of time, as some have suggested, to revert to these antiquities. Primitive conditions were entirely different from those with which the modern world is concerned; and that which made for the well-being of early man might have a very different result to his twentieth-century descendant. But the present has grown out of the

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past by a continuous process; and we cannot understand either the facts or the possibilities of the present unless we know something of the raw material of human society and of the forces by which that raw material is moulded into the infinite variety of shapes which history presents to us.

The actual conditions of primitive man doubtless varied in detail according to the nature of the place in which he lived; the *essential facts* must everywhere have shown a broad uniformity. We have thus a number of families living in the same stretch of country, forced into a loose association with each other, but without any of the features of an organized community. Each family is a separate, independent economic unit. Their food is the spontaneous gift of Nature—the fruit of the trees, the produce of the chase, or the spoils of the sea; and their personal possessions are limited to the things necessary to the maintenance of such a mode of life—the bow, the spear, the club, boats, clothing and tents of skin, and a few simple domestic utensils of baked earth.

The contrast between such a state and that of a modern industrial society is absolute and complete; and an examination of the main points of difference will give us our first glimpse of the inner nature of the questions which vex us so much to-day.

That which strikes us first is probably the fact that our primitive man's access to "nature" is free and unrestricted. He may roam the woods at will, and take his food wherever he can find it. The rivers and the sea are open to him. He may pitch his tent where he pleases, and move it elsewhere as his fancy

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suggests. *Rent* and exclusive occupation are unknown. He must work if he would live; but if he is willing to work the opportunity is always at his door. *Unemployment*, the heart-breaking search for work, the uncertainty of retaining it when secured—facts which cloud the life of the modern man and do more than aught else to sap his strength and to destroy his moral fibre at the root—are to him unknown.

Here, then, is one advantage which early man enjoyed over his modern successor. Food is as necessary to the one as to the other; but the man of to-day cannot, as a general rule, go straight to Nature's storehouse and help himself. If he is a farmer, he may draw his food direct from the source. If he lives in the country and works for or buys from the farmer, he gets his food at "one remove"; but if he is a worker in the town—dock labourer, clerk, mechanic, or what not—he is many times removed from the land; his food must pass through numerous hands before it reaches him. He himself is oblivious of the channels through which it flows; and those channels are closed to him unless he can find for himself a niche in the industrial machine and from it the wherewithal to buy. Whatever else it may have done, the differentiation or the partial organization of society has cut him off from the sources of food. We must look in due course for a more perfect organization to restore to him that security and "independence" of which incomplete organization has deprived him.

There is, however, another side to this question. If our savage ancestor enjoyed independence, it was

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an isolated independence. He enjoyed none of the benefits which organized co-operation affords. His life, which may appear at first sight care-free and secure, was subject to many vicissitudes. An unfavourable season, absence of game, scarcity of fish, might reduce him to the extremity of want. He lived literally from hand to mouth, his condition alternating from periods of surfeit and abundance to periods of utter destitution. Co-operation would have alleviated this position by increasing the products of his labour, by pooling the common resources, and by accumulating a store against times of scarcity. No accumulation, however, was safe in such conditions as existed, and none was made.

A consideration of the inevitable conditions at such a stage of human development forces us to recognize that there could be no improvement in the material circumstances of man, nor in his mental or moral life, without some measure of *co-operation*, of organization for the common good. It was co-operation in production and distribution, under the simple conditions of that early time, which lifted man from the purely animal state. During historic times the progress of any community, or any section of a community, has been in the main determined by the degree of organization which existed in the community or class for the common purposes of that community or class, and we may reach the not unreasonable conclusion that progress in the future will depend upon the improvement of that organization in character and detail, and the extension of the area included in its "common purpose."

We have seen something of the broader features

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of the economic life of primitive man. We may now endeavour to trace the first indications of other of the economic factors which bulk so largely before our eyes to-day.

What part did *Capital* play in the life of primitive man? His simple possessions consisted of bow, arrows, spears, etc., which he used to obtain food, and of clothing, tent, domestic goods, etc., which he completely consumed or used up in the mere act of living. The first group, in the language of the political economist, consists of *Capital*, and the second falls under the general head of *Wealth*. Thus Capital consists of material things made to assist in the production of other things; and these other things may themselves be Capital, as the flint knife used to shape the arrow, or be merely wealth, to be finally consumed by the individual in the act of living as food and clothing.

Our early man thus possessed Capital, but its circumstances distinguish it from the Capital of to-day. We are told that Capital is the result of saving; that a man possessing wealth, which he might consume for his own enjoyment, refrains from consuming it himself and uses it to employ labour to produce instruments of further production. Our early man's Capital is not the result of saving. He does not store up food to keep himself while he makes his bows and arrows, but manufactures these things in the periods of leisure between the times ordinarily devoted to the acquisition of food.

Capital nowadays is commonly owned by one set of people and used by another, the former receiving interest for the loan of their Capital. With our

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primitive man, however, it was the striking and significant fact that such Capital as existed was *owned by and used by the one who created it*. There was no such thing as interest. Capital was the servant of Labour. Its produce belonged to and was consumed by the producer. Its purpose was, not to create a surplus of things beyond the needs of the man himself which he could exchange for other goods, but to facilitate and render more certain the production of things which he desired to consume himself. Those needs having been supplied, the main result of the use of such primitive forms of Capital was not the increase of wealth, but the *increase of leisure*.

Capital under such conditions had the striking advantage of increasing the independence and security of the individual worker. But we must not forget that it had disadvantages hardly less striking. Capital produced under such conditions could never have progressed beyond the simplest forms. Where all the inhabitants of a district lived identical lives, consuming the same kind of food and winning it in the same way, each an isolated economic unit producing for himself alone, there could have been none of that improvement which even the simplest form of social organization produces.

As with other things, so with Capital, the growing organization and differentiation of society have profoundly modified the primitive conditions of life. Capital, which began as the absolute servant of Labour, slowly became its master. Its object, which was at first the increase of individual food and leisure, has become the increase in production, while its

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capacity to produce has been enormously magnified.

It is curious to note that advanced opinion to-day (and, indeed, in most other times) seeks a reversion in some form to the conditions which were natural and inevitable in the case of primitive man. "The worker," it is claimed, "is entitled to the produce of his labour"—but the defective organization of society stands in the way. "He must have access to the land if he is to be free"—but individual access is for most impossible; it can only be indirect access through the community—and again the social organization is defective. "Capital must be once more the servant of Labour"—but only of Labour as a community—and again we find the social organization imperfect. Social organization—its form and its motive force—is clearly the fundamental problem; and the shape and direction of its development will be the principal purpose of this discussion.

The other economic factors in the life of our early man need not detain us long. Trade, as such, did not exist. Where all lived in the same way and produced the same kind of things there could normally have been no occasion to exchange. We could as easily imagine monkeys exchanging nuts for nuts or bees bartering honey for honey. Theft must have been the natural course for those who desired or needed the goods of others; but the weak man or the incompetent thief may have been driven to occasional barter when his hunting failed. It would be idle to endeavour to extract any laws of value or exchange from such conditions. Differentiation of labour and

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habitual association are necessary before "trade " can become a normal feature of the individual life; and our primitive man had not progressed so far. Trade and the complex conditions that flow from it take their rise at some later stage of human progress, and their consideration may therefore be postponed.

CHAPTER IV

HUMAN NATURE

Human Nature : Self-regard and Other-regard : its Varying Character : its Importance as an Element in the Problem—The Assumption of the Political Economists (the Self Spirit), and of Utopians (the Social Spirit)—Their Hindrance to Progress—Descent of Man : the Animal Character of Earliest Man : the Essential Characteristics of an Animal—The Fundamental Qualities of Life : Hunger : Memory : Automatic Repetition : Instinct : Habit—Is Social Morality an Instinct or a Habit ?—Importance of the Question—The Social Heritage : Different according to Class—Modifying Causes—Human Influences—Elementary Education : the Drawback of the Half-awakened Mind—Self-influence—Self-restraint—Self-direction.

THE most vital factor in the development of human conditions is *human nature*. This is a strange, elusive, indeterminable thing, made up of two opposing influences : the feeling for self and the feeling for others. These two influences vary in strength in every individual. They are intimately and continuously affected by the conditions which surround the individual life, and they in their turn do more than anything else to shape those conditions. We can easily understand the difficulty of setting out in exact and scientific form the laws which govern the conditions of any social system when its main element is so incapable of rigid definition. For this reason most writers on political economy exclude human nature from consideration, and they assume for the

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purpose of their investigations that man, the social unit, is animated solely by self-interest—not the higher kind of self-interest which leads a man to recognize that what is best for the community is best for him as a member of the community, but the lower kind of self-interest which is greed pure and simple.

On the other hand, Utopians from time immemorial have tacitly assumed that the dweller in the Land of their Dreams is animated by the social spirit, that he readily and without question subordinates his own personal desires to the welfare and interest of the whole community.

Both these assumptions tend to blind us to the conditions under which alone real progress can be achieved. The former presents the future as hopeless, as a never-ending struggle between individuals, or classes, or nations, in which victory must go always to the powerful, and economic subjection be for ever the penalty of defeat. Small wonder that such political economy is called the "Dismal Science," and that those who imbibe it say, "Why struggle for reform when reform is hopeless? Let us rather eat, drink and be merry, for to-morrow we die."

The Utopian does hardly less harm to the real cause of human progress. By ignoring the facts of human nature he holds up as easy of accomplishment an idealistic state of society, which the unsocial elements in our common nature render, for the present, absolutely out of reach. The enthusiastic reformer thus preaches a gospel which cannot be *immediately* realized; and his inevitable failure not only strengthens the position of his opponents, but

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expends, in beating the air, energy and devotion which might be of incalculable value if directed by sound knowledge and wise judgment.

It is, therefore, above all things necessary that we should try to understand what human nature is and the limits it imposes upon us. The following brief account of the evolution of man as an ethical being may help us to such an understanding.

It is commonly accepted by scientists to-day that man is descended from an animal of a less advanced type, and that, in its turn, from still lower forms. The man in the street sums this up by saying that "man descended from monkeys"; and, although this is not what the biologist means when he speaks of man's descent, it does express in a rough-and-ready way the fact that man's predecessor was a creature of a sub-human animal type. In the earliest stages of man's existence as "man" we must therefore expect to find that his mental and moral nature showed little advance over his animal ancestors. In endeavouring to form our idea of the state of early man we are very liable to think of him as a man like ourselves in outlook and in character. Such a mistake is fatal to clear vision. We must be careful to regard him rather as an advanced type of animal than a low type of man, and must look to his animal qualities for the key to his mode of life and his relations with others of his kind.

But what are the essential characteristics of the animal?

To form an idea of this we must plunge still deeper into the remote past, follow ever farther the developing forms of life, until we reach at length

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forms which show the fundamental qualities of life in their simplest guise.

The root qualities which distinguish things that live from things that do not live are obvious enough when we turn our minds to them. The living thing has the capacity of "growth." It is driven by its very nature to absorb things from outside itself and to incorporate them in its own being. If it ceases to do that it ceases to live. So long as life continues this *urge* persists. We know it as the impelling force of "hunger." In the lower forms of life its sway is absolute, and only rarely in its very highest form in man do we find another power, the moral nature of man, strong enough to overcome it.

All living nature possesses what we may call the "function of memory," an inborn tendency to renew past experiences, to undergo the same process time after time in endless repetition. We find this function operative in its most developed form in the memory of man, the capacity which his mind possesses of renewing its past experiences almost at will. This, however, is a *conscious* process, a vast advance on the "memory" which distinguishes the lower forms of life. In these the process is non-conscious, automatic, mechanical, not controlled in any way by the living thing itself, but being merely part of what we call its life. We have no word in common language to express this quality in the purely physical world, although it is an essential quality of its life, and I have elsewhere¹ suggested that it be described as the *functional memory* of living matter. In the more advanced forms of life, however, in which a

¹ *Humanity and its Problems.*

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brain has developed and a distinctive mental life, we know it in two forms. Sometimes the tendency to repetition has impressed itself so deeply on the mental life that it has become unchangeable, impervious to outside influence, a veritable part of the mind itself. That we know as "*instinct*." It is not acquired by the individual, but is handed down from generation to generation in just the same way as the bodily functions are handed down. We see innumerable examples of this in the life of birds, fishes, insects and the lower animals, and we can trace instances in the ordinary life of man.

Sometimes this tendency to repetition is impressed upon the individual himself. He may retain it till death, or it may be destroyed by some more active influence. While it remains, however, it works like an instinct, and his mind is not directly conscious of its operation. We know such under the name of "*habit*," and we can find examples of it in every individual we meet.

Perhaps the most interesting, and certainly the most important, question that arises is this: "Is the moral nature of man an instinct or a habit?" Is a man's civic sense, his capacity for social life, acquired by him as the result of the training and experience of his own individual life, or is it the result of external influences slowly changing through the ages the character of humanity and developing in the man a "social instinct" in addition to, or in place of, the self-regarding instinct which dominates the lower forms of life?

This question is of vital importance to the social reformer. If our present state of society accords with

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greed and self-seeking as the governing instinct of the people, and if a new state can only come into being by substituting unselfishness in place of selfishness as the main (though not necessarily the sole) impulse in the people, many generations must elapse before that new state can be achieved if the necessary change in human nature must await the slow, imperceptible operation of evolution.

On the other hand, if the citizen nature can be acquired as a "habit" in the life of an individual, we may hope to lay the foundation of the new state so soon as we learn what influences must be brought to bear on the plastic mind of an individual to create in him this citizen nature. The facts, I believe, justify us in taking the more hopeful view, although the practical problem is one of immense difficulty.

It is not necessary for our present purpose to trace in any detail the gradual evolution of the human mind. It is sufficient to say that that evolution has been marked by a growing plasticity, an increasing sensibility to influence, an easier adaptability to changing conditions. Thus we have in the modern human being not an inborn social instinct (which would impel him to act as a social being in whatever conditions he might be placed), but *an inborn capacity to acquire the social habit* (i.e. to respond to the social conditions in which he may be placed and to acquire "habit" in accord therewith). His actual character is therefore largely determined by the state of society in which he is bred. The apparent change in the moral nature of the individual which we can trace from age to age is less a change in the inborn nature of the human being than the effect on the individual

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of the progressive change in the deathless society of which he forms a temporary unit.

In each generation slow changes in habit and outlook take place as the result of the close association in which the people live. In sparsely peopled districts changes are extremely slow, but in the more crowded life of the towns mind acts on mind more continuously and more effectively. Manners are changed; they become milder, and the merely brutal becomes distasteful. New conceptions of social and political relations spring up. The sense of individual right yields slowly to the sense of social duty. This improvement in the moral level of society is handed on to the new generation, which starts where its predecessor left off, achieves its own measure of progress (or mayhap reaction), and in its turn hands on the *social heritage* to its children.

The speed and the direction of the change in the social habit of the individual depend upon the character and the relative strength of the influences to which he is subjected. These influences are in the main of three kinds: the social heritage, the external influence of other human beings, and his "internal" influence over himself.

Progress or change due to the social heritage is slow and accumulative. If that influence acted alone, free from the disruptive attack of conflicting social systems and from the eruptive disturbance of individuals or groups within itself, we could forecast with some degree of assurance the general line of its advance. The social heritage, however, cannot act alone, and although it has been the strongest of the three moulding forces mentioned, its strength is

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passive, the strength of inertia, in the main a resistance to change, and making for readjustments only as the result of the mutual reactions of its own discordant parts. The social heritage of the agricultural worker is not that of the town labourer, nor is either the same as that of the squire or the merchant prince. In ages of low mental development each section of the community has had its own special heritage, which has remained almost unaffected by that of other sections. The labourer has been born into conditions which involved excessive toil, long hours, poor food, wretched shelter, early death, disease, insecurity, and unquestioning submission to those in power. Born into such a state, the labourer lived through it, and handed it on, not perceptibly changed, to his children. The fact that others possessed wealth, ease, leisure may have passed before his eyes every day, but he saw it dully as a picture, and not as a reality which concerned himself. His mind, little above that of the driven ox, could not yet think, reason, compare. It was hardly conscious of misery, although his whole life may have been steeped in misery from the cradle to the grave.

Such a state might have continued for endless generations had its conditions been uniform and unchanging. From time to time, however, some extra pinch of misery pierced the dull casing of his mind, and for a moment he became conscious of oppression and an oppressor. However short that moment, however quickly the clouds settled once more over his mind, *that experience had been*, and it could never again be wholly lost. The social heritage of his children was subtly different from that which he had

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received. It was a little less that of the ox, a little more that of the man.

The second class of influence mentioned—that of other human beings—may take various forms.

There is the personal influence of parents on the child, the special importance of which is that it serves to hand on the normal social mind from one generation to the next.

In early times the most important human influence was doubtless that of religion. Its teachers impressed upon the purely receptive mind of the child the prevailing beliefs—impressions so deep that nothing in after life could eradicate them—and those beliefs remained, for good or ill, part of the very man himself, serving in a special degree to maintain the character of the social habit unchanged at a time when the awakening mind of the race might otherwise have brought to bear a disturbing, and possibly destructive, influence on the whole fabric of society.

To-day the influence of other human beings is mainly applied through the schools. Hitherto consistent attempts at character formation have gone little beyond the teaching of the prevailing religion; but an organization through which the mind and character of the whole childhood of the nation may be moulded during its most impressionable years has infinite possibilities.

Elementary education, such as it is, has quickened the power to observe, to contrast, to compare, and through the channel of the printing press has made accessible a vast mass of knowledge of the facts of life on which this growing power may be exercised.

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This condition indicates the dominant influence in the present stage of our social growth. The extraordinary chaos of opinion; the incessant conflict between those who are trying to stamp the helpless mind with their own impression; the bombardment of assertions and denials, of truths and untruths, to which the unfortunate individual is subjected; appeals to passions, good and bad, abuse, cajolery, promises, denunciations; the absence of any uniform direction, and the lack of clear, understandable ideals; all combine to create the unrest which troubles the world to-day, and which will not disappear till the mists have been swept away and men can see plainly where they are going and understand clearly what they are seeking.

The third influence that is helping to mould the social habit is that of the individual upon himself. It is at present in its infancy, but it is destined to be the most powerful of all. The evolution of the human mind, its passage from lower to higher types, has been marked by a growing "freedom." Instinct, habit, superstition slowly lose their hold. The mind grows in power to receive, to analyse, to compare, to contrast, to reason, to select. With growing rapidity the world of external nature is being brought under subjection. Slowly, but surely, the same power is bringing under control the inner life of the man himself. Beginning with self-restraint, it becomes in time self-direction to a determined end.

This brief outline of the development of the nature of man is sufficient for our present purpose. It is, however, the least that is necessary. Although we may treat the economic and the social conditions of

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human life as separate for the purposes of analysis and study, yet in our practical problems they are indissolubly united. The inseparable nature of the two should never be lost sight of, and it is therefore of advantage to consider both together in tracing the evolution of our modern social life.

CHAPTER V

PRIMITIVE SOCIETY

Man in his Earliest Stage—Development of Primitive " Society " —An Outgrowth of Family Life—Embryonic Communism —Consequent Improvements—Private Property within the Community and its Results—Social Development in Various Directions from the Common Starting Point—Later Communistic Systems—Early Differentiation of Industry—Its General Economic Features—Growth in Density of Population without Marked Change in Economic Conditions—China—Western Civilization—Rooted in " War "—How the Institution of War grew out of " Self-regard "—The Cause of " Instinctive " Anti-foreign Feeling—The Meaning of " War "—International War—Class War—Individual War—Competition a Form of War—General Forms of War—Effects on Victor and Vanquished.

WE have seen that man in his earliest stages could hardly be distinguished from the higher animals in his moral nature or in his social and economic conditions. He lived in groups where food was abundant ; but they were groups of similarly situated individuals. Organized society, even of the simplest kind, had not yet put in an appearance. His complete personal independence put narrow limits to the possible improvement in his condition, and deprived him of the advantages which social co-operation may give. On the other hand, he was not labouring under the burden of a society organized on the basis of individual greed ; and for him the industrial and social problems of to-day had no existence.

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The development of the group into a primitive society may have taken place in various ways; but there is little doubt that, for the most part, it grew out of the inevitable conditions of family life. The period of dependence of the human child was very long; and where the child, grown to maturity and independence, remained in the same group, those early associations must have coloured, however faintly, the relations between the parents and children during their after lives. The natural outcome of this line of advance was some system of communism, the enjoyment in common of the results of their common labours. There is considerable evidence that most primitive societies passed through such communal stage, some retaining its form until quite a late period in their development.

The effect of this change on the individual was small but significant. He lost a little of his complete independence. He gained a little in security. He had no longer an indisputable right to the fruits of his labour—they belonged, in part at least, to the community.

No ill results could flow from this so long as their primitive condition compelled all to join in the search for food or the provision of shelter. Where the only possessions are the common necessities of life, and where all enjoy them equally, there is little room for envy and greed. Where one possessed nothing that others did not possess, those ruling passions which play so large a part in our enlightened civilization had no opportunity to develop.

This embryonic communism is the first step in man's progress as a social being. Vitally important

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as it is as a link in the chain, in its early stages it gives no sign of the problems that press for solution to-day. Its conditions were too homogeneous. Its parts were not yet differentiated. Organization implies difference of structure and variety of function; and organization had not yet appeared. There was no clash of conflicting interests; there were no exclusive rights, no accumulation of property. We can draw no economic lessons from it, since no return to such a condition is possible. The moral lesson is obvious enough, but of little practical help except as an inspiration.

The next step follows inevitably from the first. Co-operation in the acquisition of food gave more leisure. Close association in a common life awakened mutual interest, and the desire to please and attract; while the greater leisure gave time for personal adornment. The continuous contact of mind with mind must also have led to improvement in the instruments of the chase and the art of agriculture. Private property, distinct from the common necessities of life, appeared in the shape of simple ornaments; and with private property came desire, exchange, accumulation.

We need look for no laws of value determining the conditions of exchange. The difficulty of acquisition or of replacing may have been dimly felt; but with the primitive savage, as with the human child, desire was the one compelling fact; and the new possession is always more "desirable" than the old. The age of trade and production for exchange had not yet come.

From this first form of human society, change,

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development, evolution (call it what we will) has proceeded in various directions. Where the community is small and isolated, change is extremely slow; and some island people live even yet under conditions which appear to have remained almost unaffected by the passage of time. In other cases, where the community is large but isolated, the form of communism remained; but it tended to become, not the communism of free and equal men, but the communism of a race of slaves. It would seem natural enough that, in a large community whose internal structure was a development of that of the family, the patriarch of the community should be regarded with growing reverence; that his time should be more and more devoted to the settlement of disputes, with an inevitable increase in personal power; that there should arise minor patriarchs exercising subordinate power in different parts of the community, and that from these should spring a ruling class. In such case, power must become more and more absolute in the ruling class, and the mass of the people be reduced more and more to a condition of uniform dependence—communism perhaps in form, but slavery in essence. The ancient empire of Peru would appear to have developed broadly on some such lines.

It must have happened at times that a growing population found an impenetrable bar to further expansion in the shape of geographical facts or of neighbouring peoples. In such cases the increasing population is thrown back upon itself and compelled to find subsistence in the area already occupied. Such a condition is favourable to an improvement in the art of agriculture; secondary occupations spring up to

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supply the implements needed by a more intense cultivation of the soil; and thus by degrees there appears a simple but a real division of labour among the people. The community begins to show signs of differentiation—the first step in any organic life.

We may glance in passing at the main economic features of this society in its earlier stages.

Competition has not yet raised its evil head in the industrial field. The exploitation of the lower qualities of human nature in the interests of productive efficiency is reserved for a later time. The opportunity of such exploitation cannot exist while practically all the people have free access to the land. For the same reason "rent" does not exist. The land is owned in common by the family or the group into which the family expands. Where the common ownership lies in the family the land is not only owned but worked in common. Where the common ownership lies in the group the more natural method of working appears to be a periodical distribution of the land, or at least of part of the land, among the various families. The Middle Ages afford ample evidence of this condition in England, although other social relations due to the dominance of a class had been superimposed upon it.

Most of the implements needed by this early society are made by those who use them; primitive agricultural instruments, and the things required to produce simple household goods, do not, as a rule, demand the skilled knowledge which only specialized training can give. On the other hand, some members of the growing population may devote themselves more or less wholly to such simple manufacture, living in the

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family and putting the produce of their labour into the common stock, or exchanging the results of their industry for the food, etc., produced by the others. Such exchange, however, has none of the special features of trade in the modern sense. It is merely the exchange of goods and services for other goods and services at customary or conventional rates. There is hardly room for any form of barter among a people who are practically members of one great family, whose condition throughout is so uniform, whose implements and utensils are of the simplest kind, remaining unchanged in character for generations, whose surplus produce is not sufficient to permit of the acquisition of anything beyond the necessities of life, and with whom contact with other peoples producing articles distinct in kind from those made by themselves is non-existent.

Capital does not exist other than the implements of the husbandman or the few tools of the artificer; and, although we have in these the appropriation of the produce of labour for the purpose of further production, and to that extent the seed of Capital itself, they are not yet a means of accumulation. The tool is still the property of the workman, and his divorce from the instruments of industry has not yet begun.

The most we can see here are the slow beginnings of a society, whose wants are few and are provided in the main by the common labour of the whole, in which there is little or no marked difference in material condition, whose members are held together, not by any developed social instinct, but by the mere habit of association, in which mental and moral develop-

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ment is extremely low, the animal instinct of self lying for the most part dormant in a community whose uniform condition gives no special stimulus to individual greed.

Such a state of society might continue with little outward change for a period almost without limit where circumstances are favourable. In such case we might expect to see the population growing denser as the years roll on, division of labour a little more marked, cultivation a little more intense, and the worker driven by necessity to closer and more assiduous labour. If this process goes far enough the society may acquire a density, a general uniformity, an inertia, which leave it almost impervious to any outside influence, and over which the tide of foreign invasion may roll, like the sea over a mud flat, with hardly any effect on the mass beneath. China offers perhaps the best instance of a society developing on these lines for many thousands of years.

We need not devote time to any further consideration of this particular form of social evolution. We are concerned with Western civilization, the culmination of a line of advance very different from those we have sketched above. The variation between these types of human society is so wide, so complete, that it is difficult at first to grasp the fact that they have all sprung from a common stock, and that the divergence in their character and development is the outcome of common qualities operating in different surroundings. We may sum up that difference in the two words, *Peace and War*.

We have already seen that human nature, at least

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in its primitive form, was a complete animal self-regard; and its impulse was solely the satisfaction of its animal needs. Such self-regard among animals is in the main indifferent and exclusive. That which it is necessary to secure to satisfy hunger or its sex desires, and that which it is necessary to avoid to retain life, alone come actively within the limited range of the animal's "attention." A like quality must have marked the earliest men; and, where food was available in sufficient quantity for all, no unavoidable cause of conflict existed. Under such conditions tribes or groups might have dwelt in the same stretch of country as indifferent to each other as to the animals in the woods about them.

Times of famine, when hunting or fishing or crops failed, must have altered all this. Food is food wherever it exists; and, under the compelling force of hunger, it will be seized by him or by those who have the strength. Inter-tribal war in the shape of raids for food or other simple plunder must have arisen among men at a very early stage, probably as soon as man had become sufficiently "human" to combine in an attack upon others.

Where the animal indifference of one group to another is broken in this way—and the pure self-regard of the human being made this the only probable way—outsiders, foreigners, other-tribe-men, entered the field of man's consciousness merely as a source of danger. He saw in the other always a possible enemy—never a possible friend. The instinctive attitude of most people towards foreigners even to this day—distrust, hatred, fear, contempt—is the survival of this feeling, one of the earliest and

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most deeply rooted of human relations. It has been the inevitable outcome of his nature and his necessities; and it forms one of the most serious factors in our modern problem, which it would be blind folly to ignore.

Let us return to our early warrior. Some tribes proved to be more valiant and hardy, more enterprising and more skilful than others. They found themselves uniformly successful in their tribal conflicts, and after a time the raid, which was at first undertaken under the pressure of necessity, became a voluntary and habitual enterprise pursued for the sake of easy plunder.

However trivial these early undertakings may have been in the numbers employed, in the weapons used and in the results attained, they mark the advent of the greatest and most terrible phenomenon in the history of mankind—the institution of war.

We cannot dwell too insistently on this fact. It is the scarlet thread which runs through the whole of our modern life. It is the spirit which has shaped our social institutions, and which has determined the character of our industrial system. The remedial legislation of past generations has been the attempt to mitigate its worst horrors; but the Thing itself is with us to-day as it has been for countless ages.

Armed conflicts between nations, colossal as they may be, are but minor aspects of war, special and occasional forms of those human relations which the word connotes. National struggles would be of small account—even if they could exist at all—were it not

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for the fact that *the same spirit dominates the relations of men within the community itself.*

War, after all, *in its widest sense*, is merely the active form of the root instinct of self, operating between human beings whose relations have not become fixed and determined by habitual association. Its purpose is to satisfy the wants of the war-maker in the easiest way. In the earliest ages the conscious wants of man were confined to the bare necessities of life. He could, under normal conditions, supply those wants by his own labour. War was an easier and more agreeable method of satisfying his needs. It was merely an alternative to individual labour. Wants—or rather desires—have multiplied since that early time. They are now so great that they could not be supplied by the personal labour of the individual. They can only be supplied by appropriating the labour of many individuals. War is therefore no longer an alternative to individual labour. It has become the only means of satisfying the inordinate desires of men, and therefore a permanent condition of human relationship.

It is well to repeat that the term war is used here in its widest sense. It is that state of human relationship in which the governing impulse is the active spirit of self. Between nations the normal state is one of indifference. The self-regarding instinct is passive. War is occasional only, an exceptional condition, the self-regarding instinct becoming temporarily active and aggressive. Because of its exceptional character, a state of war between nations is a conscious and deliberate activity. *It is recognised for what it is.*

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Between classes in the same community this condition, whether we call it war or exclusive self-interest, has been habitual for many centuries, and, as a *habit*, has passed out of the field of normal consciousness. *It is not immediately recognized for what it is.* The appeal for class consciousness, of which we hear much in these days, is the recognition by the few of this fundamental state, and their call to their fellows to recognize it likewise and to make of this state of war a field of conscious and deliberate activity.

The same essential condition, however, exists between the individual members of each class. Habitual association between wage-earners may sink this mutual struggle out of sight for a time; but economic necessity has always broken down this passive neutrality, and has stirred into activity the same exclusive self-interest which dominates the active relations between classes and nations.

Between persons or bodies whose interests are similar we call this form of war "competition"; and most of the "class" activity of Labour (and of employer as well) has been directed to the suppression of this state of internal war, first by the extension of the field of habitual association (under the influence of which the idea of war fades from the conscious mind), and by the establishment of a common interest (under the influence of which the cause of mutual conflict is steadily undermined).

By some in the world of Labour this process is regarded as a girding up of the loins for the final death struggle between the classes. It is well if they seriously consider whether war can destroy war, and whether they can hope to reach the land of their ideal,

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a land of industrial and social peace, so long as the war spirit, the instinct of self-regard, is still the dominating impulse among the rank and file.

By others this process is regarded as the gradual subjugation of the war spirit in those areas in which it is most easily overcome; and their hope for the future lies in carrying this struggle to ultimate victory in those fields in which the war spirit still reigns almost unchallenged.

It is sufficient here to set out those alternative views. One or the other must ultimately prevail, and it is important that the necessity of choosing between them should always be present in our minds whatever aspect of our social or industrial life may be under consideration.

War is the root from which has sprung that particular "*variation*" of human society which we know as Western civilization, and it is therefore necessary that we should examine it more closely.

War has appeared in many forms, sometimes singly, sometimes in combination. The earliest and the most common form is the mere raid for plunder. The war-maker seizes the things he covets and returns to his own place. The victims are left poorer in goods and people, but otherwise their condition is not appreciably affected. This form of war is an effective bar to material progress. A people which is liable to spoliation at any time does not accumulate. It has no inducement to produce anything beyond what is necessary for its own immediate needs. It is condemned to stagnation, to poverty and degrada-

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tion. What surplus energy it possesses may be devoted to purposes of defence, and its future depends upon its success in that direction.

The plunder raid takes place to-day among the most advanced nations. The concession extorted at the point of the bayonet differs in no essential from the trivial plunder secured by a raiding tribe. Its scope is greater, as the power and appetite of the aggressor are greater, but it is, nevertheless, mere plunder extorted by force (or on occasions by fraud) to satisfy the "economic needs" of the raider.

The effect on the successful raider is in the long run worse than on the plundered. The robber tribe that did not produce for itself was bound in course of time to go down before the more industrious. Sooner or later its victims grew strong enough, either by themselves or in combination, to destroy it. Even in the more spacious times of the present the successful robber nation, in spite of the apparent prosperity resulting from extorted concessions, sows within its own borders the seeds of social disorders which threaten it with decay.

When the tribe has developed into the nation, populous, stable, permanent, the occasional raid gives place to the permanent tribute. Among ancient empires the extortion of tribute from weaker nations was a favourite form of "imperialism." It was the robber raid adapted to a more advanced state of "civilization." The theft continued, but its form was more convenient both to spoiler and despoiled. Armed attack was expensive, wasteful, liable to provoke unexpected resistance, uncertain in its

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results. It was a speculation. Tribute, on the other hand, offered the superior qualities of an investment. The dividends were moderately certain, and the cost of collection relatively small.

Other consequences of far-reaching importance flowed from the system of tribute. The tributary nation enjoyed a considerable measure of security. If it was the milch cow of a neighbouring empire it could count upon the armed support of that empire when attacked from other quarters. The necessity of paying an annual tribute compelled it to apply itself more assiduously to production. The improvement in the industrial arts enabled it to retain an ever-increasing surplus of wealth after satisfying the demands of its suzerain. Growing population and increasing wealth in due course brought political independence.

To the suzerain, however, the tribute was a draught of death. The capital of the empire became a reservoir into which poured the wealth of tributary nations. Productive energy gave place to luxurious idleness. Vast palaces adorned it. Poets, artists, musicians entertained it. Vice and debauchery debased it. The vigour and enterprise which had once swept its boundaries outward departed from its people. The curse of idleness, the incessant craving for amusement, permeated all classes. Slaves were brought in to perform the tasks which the "free" citizens refused to undertake. The people became more and more a body of parasites living upon the labour of other nations, trusting to mercenaries for their defence, unable even to feed themselves when for any reason the stream of tribute was interrupted.

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In due course the empire, like a tree rotten at the core, fell almost without a blow.

At other times war has been waged for the purpose of imperial expansion. The conquered people have been incorporated in the empire of the victor. To the former the consequences are less favourable than the payment of tribute. The drain of wealth to the capital of the empire continues, but in addition a horde of "imperial" officials settles upon the unfortunate province and extracts from the people the wealth the emperor has spared. The stimulus which spurred on the tributary state to increased production is weakened, if not entirely destroyed. The people are no longer free men, able to accumulate and enjoy the produce of their labour after paying the tribute, but are reduced to a position hardly distinguishable from slavery, working under compulsion, their goods at the mercy of their rapacious masters. At the same time, the organic form of their national life is corrupted, if not destroyed, by the grafting upon it of the social and political forms of the empire. As their sense of national unity weakens, their power of resistance shrinks, and they fall an easy prey to the outer barbarians, vigorous and uncorrupted, when the empire meets its inevitable collapse.

Modern Imperialism shows somewhat the same conflict between self-regard and other-regard (although to a less marked degree) as the modern man himself displays. The driving impulse of self-interest still dominates it wherever it is found, but it is qualified—sometimes in fact, more often in profession—by a regard for the welfare of the subject people. The necessity which the Imperialist to-day

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is under to defend his Imperialism before the common people as a measure of benevolence to backward people is one of the most significant signs of the times. It indicates the growth of a moral consciousness in the mass of the people, and from that influence the Imperialist himself is not free.

CHAPTER VI

ENGLAND FROM THE NORMAN CONQUEST

England : the Norman Conquest : its Effect on Social and Economic Relations—Systematic Exploitation of the People—From this Time onwards a Class War in England—The Power of the Class due to Organization and Common Purpose—The Weakness of the Mass due to its Inability to Combine for a Common Purpose—The " Hereditary " Morality of this Country as Shaped by the Social and Industrial Conditions—Consequent Inertia towards Change—Importance of Recognizing this Inertia as a Practical Problem in Reform.

It has been necessary to consider these forms of warfare as particular instances of the way in which human self-regard has manifested itself in the relations between different tribes or nations. They have played an important part in the evolution of social forms and in the promotion or retardation of material progress. The social organization of Western Europe, and particularly that of this country, is largely the effect of another form of warfare—the invasion and conquest of a country and the settlement of the invaders as a governing class over the conquered people. England has on several occasions been subject to this unpleasant experience, but the most important instance, both in its completeness and its permanence, was the Norman invasion of the eleventh century.

Prior to that date the population of this country

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was divided into classes; but, although on the surface the distinction between the classes was marked, in the fundamentals of existence it was more a distinction of form than of substance. Except on the northern and western fringes, the people had become welded into a common nationality. Inter-marriage and the associations of many centuries had hidden their earlier racial differences. The relations between the upper and lower sections of the community had long ceased to be those of victor and vanquished. A common language and common traditions had given that sense of a single nationality which made unnatural the harsher features of class government. In addition to this, luxuries were few. The material differences between rulers and ruled rested mainly in the relative abundance of food and drink. The refinements and the extravagant pleasures of life which turn power into oppression had not yet instilled their poison into the social life of the people.

The Norman Conquest brought with it a profound and far-reaching change. The new ruling class was distinguished from the native English in race and language, in manner and in mode of life. The gulf between them and the conquered people was complete. They held the country by the sword, and the only restraining influence was the fear that, if driven to desperation, the subject people might rise and destroy them. The people, indeed, were to their new masters no more than cattle, necessary to their comfort, but possibly dangerous, and for whom the rules of morality, equity and justice did not exist. This seems natural enough if we recall the roots from which the nature of man had sprung and the low

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degree of advance it had then made. The common nationality and the habitual association which had taken the edge from power in earlier years no longer existed, and Power stood there as a naked sword, free to do what the whims or the desires of its possessor dictated.

The Normans came over as plunderers, and they brought with them luxurious tastes far beyond those known to their predecessors. Their success was rapidly followed by a further invasion of favourites, adventurers, retainers and others, all determined to secure for themselves a life of ease and plenty at the expense of the unfortunate natives.

The stage is set and the circumstances favourable for the systematic exploitation of a people. From this time onwards there existed all the essential factors of a state of war between the governing class and the governed mass, varying, as time passed, in its character and intensity, but never ceasing. It should be recalled that war as it had come down from earlier times was merely the active exercise of the self-regarding instinct seeking gratification at the expense of others, striving to appropriate the fruits of others' labours to avoid the necessity of labouring itself. Active violence was merely an incident in this process, necessary only when aggression met with resistance. *The essential purpose of war was spoliation*; and the state of war continues so long as the spoliation continues, although the initial violence has been long forgotten.

The class war, of which we hear so much, is therefore a real thing, arising from the very nature of man and the particular line of development our human

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society has followed. It is a war continuously economic, always potentially violent, and from time to time actively so. It would be folly to blind oneself to this fact. If it is our real purpose to seek permanent peace, we must first understand the character, the permanent causes and the transitory forms of the war we desire to end.

We know the greed, the insolent power, the heartless self-regard of the new ruling class which the Norman Conquest established in this country. It is easy to understand that in the minds of many the class war justifies, and even demands, a restless, unceasing attack upon the ruling, or exploiting, class, regarded as the real war-makers and the oppressors of the people. That in its crude form is the mere instinct of revenge; but, however justified it may be historically, that feeling is a hindrance rather than a help in the task which lies before us.

In ascribing these ills to the self-regard of a small but powerful ruling class, we see but half the picture. These ills were due quite as much—possibly even more—to the self-regard of the mass of the people. It was as true in the time of Norman William as it is to-day that the oppression and exploitation of the mass of the people could not have taken place had it not been for the fact that the people themselves were as much under the influence of mere self-regard as were their masters. Had the native English possessed the social or communal instinct in any effective degree—i.e. the instinct to act, and if need be sacrifice oneself, in the common interest—the Norman Conquest could never have taken place. The general body of the English people had not then (nor

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have they now) reached that stage of moral progress. The close and habitual association of their common life had dulled the edge of the pure spirit of self in their personal relations. In a mild degree it had created among them some capacity for mutual help. But in matters which involved the larger dangers (possibly even to life itself) the instinct of self-regard was still supreme. And thus they faced the armed invaders—trained, skilled in war, organized, and forced by the very instinct of self-protection to act together—as a mass of individual units, separately powerless, incoherent, lacking all capacity for continuous common action, and therefore entirely defenceless.

We cannot dwell too insistently upon this fact. The evils of which the world complains, of which it has complained for so many centuries, are in no way due to that part of nature which lies outside the human being, nor to the specially evil qualities of any one class in the community, but to the spirit of self which dominates all alike. We shall have further occasion to deal with this when we come to consider the specific features of modern industry and the economic laws which underlie it.

Before leaving this subject it will be interesting and instructive to note some of the psychological, or, if we will, spiritual, consequences which have flowed from the events to which we have referred. It has been pointed out that the general current morality of any age is largely due to what is called "the social heritage." Institutions, modes of thought, human relationships, acquired in one generation come to be accepted as the natural order of things in succeeding

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generations, until in course of time they are supplanted by something else. In our own country slavery, child labour, wholesale executions for trifling offences, and many other abominations were for long treated by the great mass of the community as perfectly natural things. They were part of existing institutions handed down from previous generations, and current morality accepted them as just and proper. To criticize them was to invite the social ostracism that commonly falls to the lot of those who agitate against accepted abuses. The best men of the time could find arguments to support these iniquities, and often the victims themselves looked askance at the iconoclasts, the innovators, the agitators who sought to free them from their bonds.

The Norman Conquest brought into existence, or at least established in a much more extreme form, a ruling class who regarded the under-class merely as fit subjects for contempt and exploitation. In due course this state of things entered into and became part of the "social heritage" of the powerful classes. Exploitation of the defenceless accordingly ceased to be immoral. It had become part of the established order of things, and was accepted without question as a perfectly proper thing, decreed by Providence, necessary to the continued existence and the ordered progress of society. People, otherwise kindly and amiable, saw no harm in it. Wealth extorted from the labour of infants in mine or mill was enjoyed without a thought or care for its miserable source, just as now a "bargain" in a shop is seized and gloried in, although its cheapness may be due to the misery of some sweated sempstress. This "hereditary

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morality " is not confined to any one class. It has permeated the whole community. Might has become Right. The power to exploit justifies the exploitation. A man is "entitled to do what he likes with his own." Until recent years at least, the few "voices in the wilderness" who denounced this morality as the mere law of the jungle, and sought to teach something higher, were abused—and quite sincerely in most cases—as the enemies of society, the overthrowers of law and order.

The existence of an over-class implies that of an under-class. The latter likewise had their "social heritage." They also came in time to regard their subject state as in the natural order of things. It ceased to provoke other than casual resentment. They bore their lot with the patience and indifference of an ox under the yoke. Contempt in the over-class found its counterpart in the abject servility of the under-class. Exploitation was accepted as the thunder and the rain are accepted, and only in times of special stress did the dull mind turn with anger towards the exploiter.

This hereditary morality gives to the existing social system an inertia, a stability, whose importance can hardly be over-rated. It gives to the underlying assumption of current political economy—that man acts always in his own interest—a reality which the heterodox economist cannot afford to neglect if he is not to build upon the sand. An obstacle does not cease to exist because we close our eyes to it, and the reformer can commit no greater error than adopt the easy assumption that these facts may be ignored.

CHAPTER VII

THE LAND

Rent—Access to the Land—Increase in Population Restricts this and Establishes Exclusive Occupation of Land—The Conditions under which Rent appears—Private Ownership originally an Act of Spoliation—The Consequences of the Norman Conquest—Economic Rent—Varying Productivity of the Soil—The Margin of Cultivation—Who creates Rent?—A Social Product—Owners' Improvements—Tenants' Improvements—The Equitable Distribution of Rent—Town Rents—The Varying "Productivity" of Town Sites—Who creates Town Ground Rents?—Who gets them?—Who in Justice ought to get them?—Other Consequences of Private Ownership—Overcrowding—Anti-social Use—Does Rent enter into the Price of Agricultural Produce?—Average Price where Land is a Social Unit as compared with Market Price where Land is in Private Ownership.

WE have glanced briefly at the character of our modern social system, and have seen something of those broad streams of human development which have led up to it. We are now in a position to examine in greater detail specific aspects of our social and industrial problems and to see them in their true relation to the past.

It will be convenient first to consider the spontaneous gifts of nature, broadly included under the term "Land," and that economic aspect of land which we know as "rent."

Land is the root necessity of the human being. Without access to land or its produce life cannot con-

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tinue; and most, if not all, of the problems which vex humanity are the result of the increasing divorce between man and the land, brought about by the development of human society as typified in the Western world.

We have seen that in the most primitive stages of human development access to the fruits of nature was free, direct and unrestricted. To the scanty population of those times the unassisted bounty of nature was ample. Every member of the community was free to gather where he willed. The hunt, the forest, the sea were open to all. There was no exclusive occupation by any individual. "Rent" was not dreamed of. There was in fact nothing to rent, nobody to pay, and nobody to receive.

Even at a later stage, after man had begun to till the soil, rent was still an unknown phenomenon. Frequently the land was held in common ownership and tilled in common. Where that was not the case, where each man tilled his own plot and gathered his own crop, there was still ample land for all. Land had no exchange value any more than the air itself, since each could take all he needed for his own use. Vitally necessary as land was to his very existence, no man had to pay for it.

In course of time the population increased, and the territorial limits of the community became defined. The produce of the more fruitful areas was no longer sufficient to support all, and resort to less favoured soil became necessary. Even then, so long as the land was owned in common and the produce enjoyed in common, no individual hardship was suffered, and no reason existed to impel men to struggle or

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compete for the exclusive use of the more fertile spots. Rent was still unknown.

When, however, with a growing population and a limited area the individual came to enjoy the exclusive use of the produce of the soil he cultivated, the more favoured spots became objects of desire, and men were prepared, if need be, to pay for the privilege of occupying them.

Rent thus appears to be the consequence of five conditions¹: a growing population, a limited area, variations in the desirable qualities of the land, exclusive right to the use and produce, and the power (either in an individual or in the community as a whole) to grant such exclusive occupation.

The last-named condition implies exclusive ownership, and the problem we are concerned with is the exclusive ownership of land in a system of society whose governing impulse is self-seeking.

The original passage of land from common ownership to private ownership was in the nature of things an act of spoliation. The most striking but by no means the only instance in the history of this country is the Norman Conquest. As a consequence of that successful invasion the whole land of the country passed nominally into the ownership of the sovereign.

¹ Rent has been defined simply as a payment for the use of a means of production. As a general expression this is true enough. We may, for example, pay "rent" for the use of machinery, ships, and so on. This definition also explains why "rent" for land may exist even where land is unlimited and population scanty, provided the whole of the land is in exclusive ownership and the right or power to occupy it depends on the will of an exclusive owner. Although, however, the existence of rent may be accounted for in this way, the conditions set out above are necessary to explain the peculiar phenomena associated with the rent of land.

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Much of it remained in the same occupation as before ; but vast areas were transferred to the followers of the Norman duke. Certain feudal services had to be rendered in return ; but for all practical purposes these enormous tracts passed into the private ownership of the Norman aristocracy. The feudal services have long disappeared, and, in spite of the legal maxim that there is no such thing as the absolute ownership of land by a private individual, land is now as much private property as any other form of material possession. We have thus to deal with the problem as set out in the previous paragraph.

Let us consider first the question of rent. What is it, and how is it determined ?

Rent is, in simple terms, a payment made by a tenant to an owner for the right of exclusive occupation and enjoyment of land for a specified term.

In a highly developed country such as England, where the land laws are those which obtain here, rent consists of two parts : (1) the pure economic rent, (2) an excess which the circumstances of the tenant, such as the fixity of his capital, enable the owner of the land to appropriate. (We might add another element—interest on capital spent by the owner.) The first is an economic question, the second a merely legal one. We will consider the former. What is the nature and the measure of economic rent ?

Land varies considerably in fertility ; that is, the produce from one piece of land may greatly exceed that from another piece in return for the same outlay, the difference in yield being due mainly to the greater

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productivity¹ of the soil. It is obvious that, if I have the option to occupy either of those plots, I shall choose the more productive, and I shall be willing to pay something for the privilege. In other words, I shall be prepared to pay more "rent" for the better plot than for the poorer one.

Suppose the poorer plot, in return for my full-time labour, merely yields me enough produce for my maintenance in a style similar to that of the average unskilled workman, there is no surplus for me to pay to the owner of the land. Such land produces no economic rent while the social conditions of the time remain unchanged. If the owner attempted to enforce a rent it would leave me less than enough for my maintenance, and—if *I were free and able to move*—I should leave the land and seek work elsewhere. Such land is said to be on the "*margin of cultivation*," i.e. the profit from it will just reimburse the expenditure and support the labourer. Land of poorer quality would not support the worker under the conditions of the time, and would therefore not be cultivated (assuming always alternative opportunities of earning a living).

Near by is another piece of land of better quality, and the occupier of this, working it in just the same way as the former piece is worked, finds that it not only yields him a maintenance, but leaves in addition an excess of £20 in the year. If he pays away this

¹ This productivity is not in fact the productivity of virgin soil, but that of the soil *as it is*. This *real* productivity is to a great extent due to past expenditure of labour and capital. The value added in this way cannot, however, be separated from the "prairie" value of the land; nor is it necessary to do so in dealing with the practical question of rent.

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£20 he will still be just as well off as the other in return for the same amount of labour, and he will therefore, if need be, sacrifice this £20 rather than give up the land. The £20 is the *economic rent* of that piece of land, and the owner of the land is able to appropriate it for himself. In other words, where superior land yields a profit in excess of that given by land which it only just pays to cultivate, so much of that extra profit as is due to the productivity of the soil (or its advantageous position) is economic rent, and passes into the pocket of the landowner.

In a highly developed country like England the process does not take place in this way. Landlords do not allow tenants to occupy land "rent free" because such land is on the margin of cultivation. Nevertheless, such land cannot afford a rent; and we find in practice the truth brought out in various ways. The tenant, in order to pay a rent, may lower his standard of living—this cannot go on for long—or the tenant may pay the rent out of his capital or savings or outside earnings if he has any, or he may simply get into arrear and the rent become a bad debt. On the other hand, we may find the land rented in periods of exceptional prosperity in agriculture, to fall out of cultivation when conditions become unfavourable. So that, although in practice we find no talk about economic rent when a tenancy is being arranged, the fact remains that, broadly speaking, "rent" appropriates to the owner the profit due to "extra" productivity.

Who, then, creates this rent? Not the owner, because he does nothing but receive it. Not the tenant, because he puts in no more labour than the

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occupier of poorer land who can pay none. Not even nature; for, although nature provides the fertility, she does not create the conditions under which rent emerges. The rent is, in fact, a social product, and is due to the existence of the community.

If there is no population, there is no rent. But if there is a population, the people must be fed. The produce of the soil is the first necessity of their existence. When the community is small in number, it may not be necessary to cultivate other than the best¹ land; but as the numbers grow it becomes normally more and more necessary to resort to inferior land. Economic rent depends upon the excess of the profit-producing capacity of superior land over that of other land whose cultivation is necessary to the support of the community. As resort is made to lower and lower qualities of land, this excess, or the economic rent of all superior land, increases. And thus, as the community grows in number and is driven to cultivate ever poorer land to find its necessary food, the owners of land are able to appropriate more and more of the produce in the shape of rent. *Rent is thus born of the necessities of the people.* It is the direct outcome of the existence of the community, and as such may fairly be said to be created by the community.

Farming requires substantial capital. Virgin land is of little use for agriculture. It demands considerable expenditure in preparing and draining, in fencing, in buildings, and so on. So far as the owner spends money in this way he can take his profit

¹ By "best" is meant the most generally desirable, having regard not only to fertility but to situation.

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thereon in the shape of increased rent, the profit-producing capacity of the land being increased by this outlay. So far as the tenant spends money or labour in improving his holding, the increased profit accrues to him throughout the period during which his rent is fixed; but when that period is expired and a new bargain has to be made, the owner, under a free competitive system, is in a position to appropriate the benefit of the tenant's improvements in the shape of increased rent, since the tenant cannot remove his capital so sunk, and must either stay or lose it.

On the other hand, should agriculture decline, the last thing affected is the outlay on improvements made by the owner. The economic rent of the land falls, and the tenant should therefore pay less. It has, however, too frequently happened that the tenant has been unable to insist upon a diminished rent because he is tied by the capital he has himself sunk in the land, and the owner has consequently been able for a considerable period to extort rent at the old figure, which the tenant has been compelled to pay out of his capital. This fact has played no small part in the history of British agriculture during the past century.

We have thus two factors¹ in agricultural rents not due to any act or sacrifice of the owner: the economic rent which is the creation of the community and which should in justice belong to the community,

¹ Interest on the capital of the owner sunk in the land is not included here. It is indistinguishable in ordinary practice from the pure rent of the land; but so far as that capital expenditure is of present value, the owner has the same right to it as the tenant has to his capital sunk in the land.

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and the "excess" rent appropriated from the tenant and which should in justice remain with the tenant.

So far we have considered the broad aspects of agricultural rent, or the rent of land occupied for the sake of the natural produce to be obtained from it. We shall find that a very similar state of things exists in the case of land used solely as the site for buildings, i.e. the land occupied by towns and cities.

Land is not only necessary to the human being as the source of food; it is necessary to him also as a resting-place. He lives from the land and on it. His body occupies space, and, as he has neither wings nor fins, some part of the earth's surface is unavoidably filled by him. This human necessity in its turn produces rent. Some men get a living by husbandry, others from various occupations apart from agriculture. Most of the land of the country is in the exclusive occupation of individuals for the purpose of farming. The non-agricultural population is therefore compelled to collect in small areas, in villages, towns, cities. The land capable of such occupation is limited, and the owner of such land is therefore able to compel a "rent" for the necessary privilege of occupation.

Residence in a town brings its own opportunities of profit, and the bigger the town the bigger the opportunities. In a small village the scope of the retail trader is limited. The average profits of the shopkeeper are necessarily small and offer little prospect of expansion. The share of such profit which the ground owner can extort in the shape of rent is therefore limited in amount.

The circumstances are, however, very different in

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a large and growing town. The economic rent created by the presence of an enormous population is almost without limit. Factories establish themselves there. Raw material may be brought to a factory so placed, and completed goods be distributed, much more conveniently than in an isolated spot in the rural districts. Transport services of all kinds converge on the big towns, and efficient transport is one of the prime necessities of successful factory production. The factory, too, seeks the town because of the abundant labour supply commonly found there. The town is, in fact, a reservoir into which the so-called surplus labour from the agricultural districts inevitably drains, and the factory needs this reservoir for its own purposes. The shopkeeper finds in this growing population a large and expanding market, and the supply of its needs offers to energy and enterprise a chance of profit-making which cannot be found among the scanty population of the countryside. Business breeds business. The profits from factory, office, shop, bring into existence a wealthy middle class, whose needs and luxuries must also be supplied by the town, and further opportunities of profitable trade arise. In the largest towns, and particularly in the seaports, a powerful merchant class appears, and with them the great financial institutions, whose ramifications soon extend throughout the country, drawing to the manufacturing and trading centres the surplus wealth of the people. A vast army of clerks is needed. They swell the town population, increase the demand for house room, and bring further custom to the shopkeeper. And thus the number of the people grows and grows in a kind of geometrical

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progression, almost with the inevitability of a natural law.

We found in considering the question of the rent of agricultural land many degrees of "desirability." Some land was more fertile or better situated than other land, and so commanded a higher rent. The "desirability" was ultimately measured by profit-producing capacity. In the towns, too, we find degrees of desirability, also measured in the main by profit-producing capacity, social desirability playing a part although a subordinate one. The centre of the town becomes specially "desirable" to the financial and mercantile houses. Their main need is to be at the heart of things, to have access to the earliest and most reliable information, to be in easy and speedy communication with each other. The central sites of the town are thus specially important to that section which commonly makes the largest profit, and their competition for such sites gives the landowner his opportunity of extracting abnormal rents.

The great retail houses likewise tend to gravitate to inner positions. The nearer they are to the centre, the larger is the population within a specified radius. Their competition also drives up rents in the inner circle of the town.

The workers in office, shop and factory naturally seek a residence as conveniently situated as possible, having regard to the spot in which they work. They, therefore, tend to compete for houses either near the place of work or convenient thereto in view of the character of the transport arrangements.

The land on the outer circle of the town claims less rent. It is necessarily more abundant as the circum-

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ference of the circle enlarges, and it lacks the profit-making capacity of the more central areas.

Thus we see that the town lands also have their differential values, and as a consequence their differential rents. And again the question arises—Who creates this rent, and how is it measured?

The rent paid by the occupier of town land may be regarded as made up of three elements: (1) the economic rent depending upon the advantageous qualities of the site; (2) interest on outlay in preparing the site for building, laying drains, road-making, and erecting the premises; (3) appropriation of tenants' improvements. The landowner obviously creates none of this rent. He is merely the receiver. The first item is the creation of the community. The second is the return on the builder's capital. This falls into the hands of the landowner where the builder takes the land on a building lease—usually ninety-nine years. The third is the creation of the occupier. He may have spent capital in improvements, or may by his special business ability have created a goodwill peculiar to the business and the premises in which it is carried on. At the end of his lease (if he holds on lease and does not own the freehold) all the capital and goodwill which cannot be removed falls into the hands of the one from whom he holds his tenancy, and ultimately into the possession of the landowner. In equity the economic rent created by the community should be enjoyed by the community, and that created by the capital or the energy and ability of an individual by the individual.

So much for those economic aspects of land which emerge in the question of "rent." There are, how-

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ever, other consequences, even more important, of the private ownership of land in a society in which the governing impulse is "self-seeking." The welfare of the community requires a use of the land often very different from that form of use which yields the largest money profit to the private owner. It is not a good thing that houses should be crowded so closely together that light and air cannot freely penetrate; but the landowner may find his greatest profit in getting the largest possible number of people to live on the smallest possible space. Houses should be interspersed with ample open ground. It is not well that the children should be forced to play, as so many are forced to play, in gutter and slum; but open ground means the possible loss of future profit.

There are many ways in which private ownership of land obstructs the beneficial development of the community; but it is unnecessary to pursue the point here. It will be best to deal with these when the whole problem of the land in its bearing upon the well-being of the people is considered.

Let us return to the question of agricultural rents under private ownership. The community is closely interested in various ways. The appropriation of socially-created rent by an individual is obviously a matter of general concern. It is also important to consider whether the payment of such rent involves an increase in the price of the produce which the people must individually purchase.

This question is commonly put in the form, "Does rent enter into price?" This is an incomplete statement of the real problem; but we may consider it for what it is worth. What determines price—assuming

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free competition and an absence of rings, trusts, monopolies and the like, and also, for the present, the effect on prices (and incidentally on rents) of free importation? The price of the agricultural produce under such open conditions must be such as will give the normal return for the labour and the capital employed in producing the thing sold. The price must therefore be such as will give a sufficient reward to those who are cultivating the most unfavourable soil. Let us imagine the land to consist of such varying qualities that for equal areas and for equal outlay the produce is 10 qrs. of wheat, 8 qrs. and 6 qrs. respectively. If the needs of the population are such that they cannot be supplied from the first or second grades of land, but compel resort to the third grade, the price of wheat must be such that 6 qrs. at the given price will sufficiently remunerate the labour, etc., spent in their production; i.e. the price per quarter must be more than it would need to be if the more fertile soils alone had to be cultivated. If, for example, £30 were a fair return for all the outlay, the best land yielding 10 qrs. would be reasonably remunerated by a price of £3 per quarter; but the lowest class of land, giving 6 qrs. only, would need a price of £5 per quarter to return its cost of production. Under our competitive system and private ownership the lowest-grade land will only be used if it is absolutely necessary, and, being necessary, a price of £5 per quarter must be paid. It will be observed that this price is determined by the conditions of the worst class of land in necessary cultivation. It is not affected in any way by the fact that the better land can produce wheat at a much smaller

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cost per quarter. The price is governed by the worst class, and must be £5 per quarter. But there is only one price in the market, and thus *all* the wheat in the market commands a price of £5 per quarter. The land that produces 8 qrs. at a cost of £30 yields £40 for its produce, and therefore an economic rent of £10. It is, however, clear that this economic rent is not the cause of the price £5, but the consequence of that price; and therefore it is said that the payment of rent does not affect the price. This is, of course, literally true as regards pure economic rent; but it does not represent the whole truth. The necessities of the people, which compel resort to the inferior land, create the conditions which determine the price (£5 per quarter), and which also determine the economic rent (£10); and this economic rent is the additional price the community pays for the produce of that particular piece of land. It is therefore true to say that the payment of economic rent does not directly increase the price to the consumer; yet it is equally true to say that the economic rent is an increased price to the consumer. It is an effect instead of a cause—a fact which gives small consolation to those who have to pay the larger price.

As regards the other elements in "rent," interest on the owner's capital clearly does not increase the price of the product—its tendency must be to increase production and reduce price. So far, however, as the land system of a country enables the owner to appropriate the tenant's capital, prices (where not checked by importation) must tend to increase to make good to the tenant what the owner appropriates. This point is probably of little practical importance in this

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country as regards prices, and we need therefore not dwell specially upon it.

There is one aspect of rent, combined with private ownership, which is of some social importance. The economic rent which, as we have seen, is paid by the community in the shape of higher prices, passes into the hands of individuals, and is used by them, to a very considerable extent, in the employment of unproductive labour, either in the shape of the personal services of domestics, footmen, coachmen, grooms and the like, or in the purchase of luxuries in whose manufacture considerable numbers are employed. Without touching at present upon this unproductive outlay as part of the machinery of distribution of wealth as it exists at present, these additional numbers must be clothed and fed. They do nothing themselves to produce either food or clothing, or commodities which could be exchanged for such necessities. They are consumers of wealth without being producers; and their requirements must tend to increase the price or diminish the quantity of such things available to the productive members of the community.

One further point is worth mention—it will call for fuller consideration later—before we leave this brief survey of the “land.” If we take the example already given of three pieces of land producing 10 qrs., 8 qrs. and 6 qrs. of wheat respectively, the price paid for the produce by the general body of consumers is £120, viz., 24 qrs. at £5 per quarter. The social cost, however, including normal remuneration to the labour, etc. employed, is £90, viz.: £30 for each area, which represents an average of

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£3 15s. a quarter. The treatment of land as a *social unit* instead of a mass of individual "self-supporting" units, and the price as determined by the *average social cost* instead of by the cost on the most unfavourable land, has consequences of obvious importance. It is, however, sufficient for our present purpose to draw passing attention to this fact, so that when we are considering the economic aspects of the land we may remember that, while certain of them are inherent in the nature of land itself, others depend upon the particular social system under which the community lives. The distinction is of importance to those who seek to modify or to change the existing system of private ownership of land; and its recognition will assist in forming an opinion as to the limits, the desirability and the practicability of such change.

CHAPTER VIII

PRE-CAPITALISTIC PERIOD

All Commodities from Land and Labour—Increasing Desires, and Increase in Amount of Labour applied to Natural Objects to fit them for Consumption—Artificial Aids to Human Labour—Capital—Who creates it? What is the Capitalistic System? Limits to the Creation of Capital during the Age of Handicraft—Accumulation of Capital Impossible without Division of Labour and Production for Exchange—Appropriation of Labour of Others—Slave Labour—Free Labour—Aristocracy—Manufacturers—Traders—Surplus Labour—Merchants the Main Accumulators in Early Times—Home Traders, Foreign Traders, Bankers—The Claim that Wealth should belong to the Producer—The Community has a Claim on the Produce of the Soil and therefore on the Produce of all Labour—The Duty of the Worker to the Community—The Duty of the Community to the Worker.

EVERYTHING that man consumes—and his life is a long process of consumption in one form or another—comes from the almost inexhaustible storehouse of nature, or, in economic phrase, from the “land.” It may be consumed exactly in the shape in which nature supplies it, the only human labour involved being that of collecting it. Thus we observed in the case of primitive man that a very large proportion of the things on which he supported life were of this character. His food was not the result of cultivation—it was simply collected. His clothing and shelter,

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whether skins in the one case or skin tents or holes in the cliffs in the other, were similarly supplied direct from nature, a little reshaping, a little enlarging, being the limit of his labour upon the natural supplies before he proceeded to use or consume them.

As the race advances in knowledge, as it grows more "civilized," as it becomes more and more removed from the purely animal state, so it becomes less content, perhaps even less fitted, to consume or to use the gifts of nature in their raw condition; and an increasing amount of human labour is applied to them before these natural products reach the form in which they are finally consumed.

In course of time, and as a result of the increasing number of the population, natural products not only cease to satisfy in their raw state, but their supply falls short of human requirements, and other natural products have to be adapted by complex processes of labour to meet the need. It would, for example, be impossible to clothe all the people in skins—both the taste and the numbers of the people render that a hopeless proceeding; and therefore fibres, such as cotton, must by many ingenious processes be spun and woven until they are in a condition to serve the purpose which skins originally fulfilled. Thus the quantity (or quality) of labour applied to natural objects to fit them for human consumption steadily increases—one might almost measure the march of civilization in one of its aspects by the extent of this increase.

In the earlier stages this labour is raw human labour, unassisted other than by equally raw natural products. A branch of a tree may serve to soften

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skins, a stone to scrape them, a broken flint to cut and shape them.

By degrees these aids to labour cease to be merely objects in their natural state, and are themselves shaped or adapted by human labour to serve this particular purpose. We find, at one end, the bow, the knife, the spade, serving as such "artificial aids," and, at the other, the modern factory with its vast multiplicity of complex machines, set in action by enormous power which unaided human strength could never achieve.

These "artificial aids" to human labour are what is called *Capital*. Capital therefore consists of things prepared by human labour to assist in the production of other things. We may begin with that simple conception of Capital. It will serve our purpose well enough, provided we bear in mind the fact that the "labour" embraces labour of brain as well as labour of hand, and that, to the extent to which Capital is necessary to the life of the community, the stimulus or reward necessary to set each kind of labour in action must be maintained.

We have seen, broadly, what Capital is. It is now necessary to inquire: Whence comes it? Who creates it? How is it renewed or increased? What part does it play in the life of the community? What do we mean by the "capitalistic system," and how did that system come into being? To what extent, and why, does the good inherent in Capital itself become distorted into evil under such a system? Is that evil inevitable; and, if not, how can it be removed without destroying also the good? These and a score of other questions arise when we approach

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the consideration of Capital; and their very scope suggests that in Capital we have one of the master problems of the age.

Whence comes Capital? We have seen that Capital, in the broad material sense in which we use the word, is something produced by human labour; which something is not immediately consumed by the human being, but is used by him to assist the production of other things. It is obvious that, at the beginning, when the first piece of Capital—a net or a snare or a spear or whatever it may have been—was being produced, the labour expended upon it was an absolute addition to the labour spent in acquiring the necessities of existence. It was *surplus* labour, in the sense that it was in addition to the labour necessary to support life under the then existing conditions.

Subsequent to the production of that piece of primitive capital, the labour required to secure the necessities of existence (and to replace the capital as it was used up) was less than before; and, so long as the man's standard of living and the character of his "wants" remain unchanged, the net effect is an increase in his leisure. "Surplus labour" has in effect ceased and disappeared. What can he do with this additional leisure? He may devote part to securing food in greater abundance; but there is an obvious limit to this. He may devote part to making additional pieces of capital, anticipating the time when his capital in use must be replaced; but there is an obvious limit to this. So long as he lives as an isolated economic unit, a cavewoman of bows and arrows would be of no special value to him. Leisure,

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however, facilitates association, and association awakens the intelligence and provokes new desires. The satisfaction of these new desires demands a new expenditure of labour; and, in due course, further pieces of capital are produced to assist in the process. Presently we find man in possession of a wooden plough, of a simple spinning-wheel, and of other aids to industrial production, while his dwelling becomes more substantial, and his clothes and domestic utensils more serviceable and more varied. Capital, *produced, owned and used by the individual*, therefore tends in the long run in some degree to reduce his labour time, but in a greater degree to increase the comfort and security of his existence.

Until men learn to organize for the purpose of common production, or until the individual produces for others besides his own family, there can be no accumulation of capital. His own power of consumption is too limited. Nor can it be said, up to this point, that Capital is the result of abstinence or of saving. He has in no sense avoided consumption or stored up the products of his labour. He has merely utilized his increased leisure to improve his conditions of existence, and now consumes all he produces, apart from such small store as he may put aside for later use.

It may be noted that we are not now concerned with the quasi-communistic development of certain peoples, but are confining ourselves to that line of progress which has led to our present system.

There can be no appreciable advance from the position set out above until division of labour and the consequent habit of exchange make their

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appearance. So long as every member of the community is engaged in producing for himself alone there can be neither great variety of goods nor any specialized skill in producing them.

Division of labour improves production both in quality and quantity, and—more important in its ultimate effects—it gives the first great stimulus to accumulation. One may devote himself to the making of woollen fabric, another to beaten metal, another to pottery, saddlery, weapons, and so on. The weaver of wool had previously no means of disposing of any surplus quantity he might produce. Others made their own; nobody needed his; and an accumulation was of no service to him beyond his personal needs. His useful labour time was therefore limited. He can now, however, exchange his surplus for other articles desirable as articles either of use or ornament; and, the longer he works and the more he produces, the greater accumulation he can make of varied and desirable articles which not only give him satisfaction in themselves, but which can as occasion arises be exchanged for other things. Accumulation of wealth now becomes possible; but, so long as it is based upon his own labour alone, its growth must be slow, and must depend in the main not upon an increase in his “capital,” but upon an increase in his labour time.

The next great step—not necessarily successive in point of time, since these changes must have been more or less concurrent—was the using of the labour of others, and the appropriation of the results. We may well believe that this took at first the form of slave labour. In early stages of society the free

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labourer, that is the man free to sell his labour to another, could not have existed. Each could get his living direct from nature, and until such direct access to the "land" ceased for some of the people there could have been no normal occasion to seek food through the service of another. Slaves, the booty of war, came naturally before wage labourers; and the labour of slaves offered the easy opportunity to accumulate wealth by setting them to productive labour. There arose accordingly an increased demand for "capital," the simple instruments of production, this capital taking the form of an increase in the number, and not a change in the kind, of the instruments commonly in use. The possession of slaves was thus a source of wealth to the owner; and whether they worked in his fields, or in his shop or in his house, the surplus they produced over and above what they consumed filled his coffers, provided him with a fund by means of which he could, if need be, command other labour, and established the existence of a wealth-owning class and a class which possessed nothing but its power to work, if a slave could be said to "possess" even that.

The "free" labourer followed inevitably; and whether he was paid in kind, or a mere subsistence wage, or a customary wage, the essential fact remained that there was left in the pockets of the "employer" a surplus which went to swell his wealth, and which could be used as additional capital according to circumstances.

We see then that the key to the accumulation or the enjoyment of wealth was the command of other men's labour. Unless he could achieve this, no man

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could rise above his neighbours. He who desired to have about him a number of unproductive individuals, whether a body of armed retainers to fight his quarrels or of domestic servants to attend to his comfort, must somehow or other secure control of the productive labour of other men; and this he could do only by standing between them and the ultimate source of food, etc. This in its turn he could do either by direct compulsion (as in the case of slaves), or, indirectly, by taking possession of the land.

All this led rather to the accumulation of wealth (consumable goods) than of capital (productive goods); but there was nothing to prevent the surplus taking the form of capital so soon as an outlet existed through which the subsequent increased supply of consumable things could flow.

In the earlier stages there is little doubt that all substantial accumulation of wealth was derived in this way. For the most part the owners of such wealth did nothing to produce it. They merely extracted it by force—actual or potential—from those whose labour was embodied in it, or from the land, which itself had at some time or other been appropriated as a private possession. Their wealth was in fact the result of robbery—frankly such at first, but sanctioned in course of time by use and custom as legal possession.

In due course there appeared outside this class—which we may call the patricians or landed aristocracy—two other classes, the makers of things and the exchangers of things (manufacture and trade), which were productive and accumulative, as distinct

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from the former, which was mainly consumptive and distributive.

The manufacturers—the makers of things—when not also merchants were a class of small producers, handicraftsmen, working with simple instruments, the value of whose goods was due in the main to skill of hand and eye, to delicacy and artistry of workmanship, and, to but a small extent, to the actual capital embodied in the instruments of production. Although both slave labour and free labour were at various times employed, the skilled character of the work and the simple character of the instruments lent themselves to small-scale production. The “surplus value” in the hands of any individual employer could in such circumstances rarely have been great. Wealth was accumulated mainly by trading—the exchanging of the produce of others. “Manufacturing capital”—if such a term may be used under such conditions—had little power to exploit the worker. The manufacturer was more often than not his own workman, and, where he also employed others, there could as a rule have been little difference in their economic condition. Capital was still the subordinate member of the partnership. Output was correspondingly small—an aggregate of individual outputs, and not that of an organized factory—and the standard of living of employer and employed more nearly equal.

Apart from the great landowners, the chief accumulators of wealth were the merchants. In an age of “small” production the actual producer’s opportunity of amassing riches was very limited. The merchant could draw his goods from any part of the known world, and he could collect wealth to the

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utmost extent of his enterprise, his resources and his credit. Unlike the landowner, whose wealth was mainly consumable, the merchant's wealth was mainly in the form of capital, trading stock, warehouses, ships—wealth held, not for the purpose of immediate consumption, but for the purpose of exchange. His activities fell into three classes: home trader, foreign trader, and banker.

In the purely home trade, i.e. the purchase and sale of goods in the place in which they were produced, he could have found little opportunity of special profit. He possessed no sort of monopoly, and, as a rule, could not have purchased appreciably below the customary sale price of the producer or have sold appreciably above that price. What profit he made in that way could hardly have exceeded a reasonable reward for his labour in providing some "convenience" in the process of exchange. He, in fact, created additional value by expending certain useful social labour in connexion with such commodities, and the circumstances must normally have prevented him appropriating to himself more than the value so created, in excess of the portion of that value transferred, in the shape of wages or maintenance, to those he employed.

A more profitable form of home trade—more truly a branch of foreign trade—was found where special classes of commodities were produced in particular parts of the country. The purchase of such goods in distant markets and their sale in other parts involved considerable risk, required considerable capital, energy and enterprise. The sale of such things in a town remote from their place of origin

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involved a substantial degree of monopoly; but, so long as they were not personally or socially *necessary* articles, the excessive profit secured by the merchant meant merely a *voluntary* surrender by the consumer of a like excessive part of his own wealth or labour for the sake of the personal gratification resulting from their enjoyment. This excess represented no addition to the *real* value of the commodity, and no addition to the wealth of the country. There was a perfectly legitimate exchange of a material thing for a non-material pleasure together with the material thing enjoyed; and the result was not to increase the wealth of the country, but to cause it to accumulate in one spot (the merchant's warehouse or pocket) in the shape of consumable wealth or trading capital. It is only where the merchant's goods, so acquired, are personally or socially *necessary* things, that the transfer of excessive profit as the result of some degree of monopoly involves spoliation—a *compulsory* transfer of value from one person to another without adequate return.

The foreign trade of our early merchant resembled in its essential features the second class of home trade above described, but the conditions were intensified. The distance covered was generally much greater, the risks much more serious, the necessary capital in the shape of warehouses, ships, trading stocks, magnified by the long period occupied in distant voyages, incomparably greater. On the other hand, these conditions narrowed the field of competition, and gave to the merchant or the company of merchants a much more effective monopoly. The goods imported could rarely have been of the

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character of necessities—until the era of large-scale production each country must have been self-supporting in normal times so far as regards the necessities of life, and the cost of importing things also largely produced at home must have proved prohibitive. The merchant accordingly brought into the country, for the most part, articles of luxury or semi-luxury which his own country either did not produce at all or produced with great difficulty. As a consequence he sold mainly to the wealthy class. In the absence of effective competition and of any measure of value, the price given by the purchaser was determined, not by the intrinsic value of the things themselves, but by his wealth, the acuteness of his desire and the social consideration attaching to the possession of such articles. The inevitable result was an excessive profit to the merchant, the net effect being a considerable transfer of wealth from the landowning or patrician class to the merchant class. The latter's opportunity of profit-making was a double one. He purchased goods in his own country where their value was mainly determined by the cost of production, and exchanged them in a foreign country, where they were rare, for the produce of that country, and in due course sold such produce in his own country, where, in its turn, it was rare. Thus in each voyage he made two sets of purchases and two sets of sales, the former at approximate cost of production and the latter at monopoly prices. Little wonder that the successful merchant rapidly accumulated riches, and that much of the wealth appropriated by the landowner from the tiller of the soil found its way into his coffers.

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This process was facilitated by the merchant's third function—that of moneylender. The surplus wealth of the country tended to accumulate in his hands, and his was the only class to which the needy could normally look for help—and for such help there was always a demand. A luxurious aristocracy, acquiring its wealth by mere appropriation, has commonly a great capacity for spending and an equal capacity for borrowing. Wars, great and small, also called for heavy expenditure of wealth within a short period. This also was to a great extent borrowed; and again the merchant class provided the only substantial lenders. At the present time the business of moneylender is a separate trade—that of the banks. But up to the beginning of the present era it was part of the ordinary function of the great merchants; and as a result of the conditions briefly described above, that class was the dominant economic class for hundreds of years.

So far we have been dealing with the conditions of accumulation or the distribution of "surplus production" during what may be conveniently described as the age of handicraft as distinct from the modern phase—the age of machine industry. The main features of the latter (which are quite distinct from those of the earlier time) will be considered in due course. For the present this brief review of the age of handicraft must suffice. It is necessary to bear in mind that we are seeking a bird's-eye view only of the governing features over a very long period of human development. It is obvious enough that a closer view would disclose many irregularities in detail—wealth was not absolutely confined to specific

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classes; the conditions of any one class were not rigidly uniform throughout. Any attempt, however, to consider minor variations in so brief a review as the present would obscure rather than illuminate the truth. It is desirable to see first the character of the great mountain ranges and the direction of the chief rivers before we begin to examine and measure the myriad irregularities of the surface.

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The study of history is not, or should not be, an end in itself. Its purpose is to enable us to understand the present and to measure the possibilities of the future. Through it all there runs the dual note: "what is, and what ought to be." The practical fact is continually confronted with the ethical desire. The conflict between these two is the whole world of social reform in a nutshell, and the task of the social reformer is to learn how and at what point they can be brought together. In the field of economics it is recognized that many evils result from the ill distribution of wealth. The ethical question arises: "How *ought* wealth to be distributed?" and the practical question, "How could such redistribution be brought about, and what would be its effect on the amount of wealth to be distributed?"

As one illustration of the practical difficulties that may be found in applying a general ethical test to these problems, let us look at one aspect of this in connexion with the relatively simple conditions of wealth production during the handicraft period.

How ought wealth to be distributed? The natural answer is: "It should belong to those who produce it," or, in the modern phrase, "To the worker the

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whole produce of his labour." True as this is as an abstract principle, it leaves us with the extremely difficult question, "What is the produce of the individual worker's labour?" In the case of primitive man the answer was plain enough. He had free access to nature; he was an isolated unit in an unorganized community; he possessed nothing which he did not himself gather from nature's store; he received no help from others, direct or indirect, in the gathering; if he gathered nothing he had nothing. The produce of his labour was obvious enough; and just as obviously it belonged naturally to him. In short, *the whole process of production took place within the economic unit (the individual or the family), and the wealth produced belonged to that unit.*

The problem ceases to be simple when we leave this primitive state and consider a society which has so far advanced as to develop "division of labour." Some till the soil, others are craftsmen and produce agricultural instruments, build houses, make clothing and so on. Is the tiller of the soil now entitled to the whole produce of the soil he tills?

We can only seek an answer to this question in the realm of speculation. "Natural right" has often been discussed by philosophers, but it has never existed in "fact." Our present system was founded on might (not right) in some form or other; and those who seek to modify that system must find an alternative system based on some understandable foundation.

Our primitive man, as we have seen, had free individual access to the "land." Such access was

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equal to all. As the population increased and systematic cultivation of the soil became necessary, exclusive occupation was inevitable. Some therefore were deprived of—or surrendered—their equal “right” to access to the land. But life could not be maintained without access to the produce of the land; and this “right” could not be surrendered or lost without giving up the right to life itself. The land must yield the necessities of life to the whole population—both farmers and craftsmen—and therefore the actual occupiers of the land (the farmers) must produce not only enough to supply their own needs, but also a surplus to supply the needs of the others (the craftsmen). It is thus a rational conception that the farmer was under a social duty to produce this surplus, that the craftsman was entitled to the surplus, and that the additional service rendered by the farmer in labouring to produce more than his own needs required gave him a “right” to equal additional service on the part of the craftsman.

To complete this conception of social production we must put aside the idea of a surplus over and above the farmer's needs. The produce of land varies in amount. In a year of famine there may be no actual surplus over the needs of the farmer, and therefore nothing left for the craftsman, who is thus expending labour (his social service) but can get none of the vitally essential service of the farmer in return. The determining factor is, therefore, not surplus produce, but a share of actual produce; and if from natural causes the quantity of produce diminishes, the return for labour diminishes, and all suffer in a like degree.

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It must also be remembered that the craftsman (although he does not till the soil) cannot labour at all without access to raw materials drawn from the soil. He cannot render the necessary social service, in return for which alone he can get a share of the food produced by the occupier of the land, unless the occupier of the land permits him to obtain the raw material of his own labour. It is obvious that in the absence of clear definition of their mutual rights the occupier of the soil could speedily reduce the other to slavery.

It is evident also that the whole community is directly interested in the effective cultivation of the soil. All, whether farmers or not, are dependent on the produce of the soil for the essential things of life. Indifferent cultivation lessens the produce and diminishes the share of each; and the craftsman obtains an inadequate return of food for the full measure of social labour which he gives.

The general maxim that the worker is entitled to the whole produce of his labour cannot be applied literally in the case of the occupier of land, or, more broadly, of the individual who has exclusive access to any of the raw material of nature. The above considerations lead us to this: he occupies the land in trust for the whole community of workers; he is under a social duty to cultivate that land in the best possible way; he is entitled to a share of the produce, not as the actual occupier, but as one of the community jointly interested therein, and he is entitled to his share of the social services rendered by the rest of the community.

Turn now to the case of the craftsman. Is he

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entitled to the whole produce of his labour? We shall find that his position is similar to that of the occupier of land. He is, for example, a maker of boots. His labour is useless—it remains unproductive labour power only—unless he can apply it to the appropriate material, leather. This material is part of the resources of nature; it is limited in quantity; and to the extent to which he applies his labour to it he has “exclusive access” to the raw material of nature. The community has, however, an “interest” in this natural produce, just as it had in the case of land. If the bootmaker destroys the leather, or does not use it in the best possible way, he is injuring the community by destroying or diminishing a “social value” in which the community has an interest. He is therefore under a social duty to use the raw material “entrusted” to him to the best advantage of the community.

What then is the produce of his labour? Not the pair of boots. That is a joint product of something that is his (the labour) and something that is the community's (the leather). The produce of his labour is the value embodied in the boots as the result of his labour. This value, however, cannot be separated from the boots, and to say that he is entitled to it conveys no distinct meaning. The statement cannot be interpreted literally. The only effective meaning we can give to it is this: he has performed a social service and he is entitled to equal social service in return. Taking the farmer and the bootmaker as typical of the workers of the community, we are thus driven to this conclusion: neither is entitled to the actual produce of his labour—that produce is

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an added value which can no longer have a separate existence; neither is entitled to the actual thing in which his labour is embodied—it belongs, in part at least, to the community. Each has rendered to the community a social service and is entitled to equal social service in return. We need not trouble at the moment with the further question: “How are the social services of the various members of the community to be measured?”

In addition to the above considerations, it must also be remembered that both farmer and craftsman owe their capacity to produce, whether as regards their individual skill and training or as regards the accumulated efficiency of the methods and organization of industry, to the social heritage which has come down to them from the past, and to the intangible, immeasurable, but none the less real advantages derived from the whole existing community in which they live. They, therefore, owe a social service to the community itself, which is returned to them, not in specific and individual forms, but in the general benefits accruing to them as members of a human society.

If then the principle is postulated that the worker is entitled to the whole produce of his labour, it can only be interpreted as meaning that in return for his “social service” he is entitled to equal service in specific or general form from the rest of the community. It follows from this that he who renders no service to the community is entitled to no share of the produce of the worker’s labour, otherwise the return to the worker could not be equal to the social service he himself renders. Our landowner and his

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retainers thus find no justifiable place in the social economy of such a community in which the land-owner has not rendered "equal social service" in return for his special privileges; but in the world of fact he possessed those privileges, and no power existed which could displace him.

This brief review of the principle that the worker is entitled to the whole produce of his labour, under the assumed conditions of a society clearly differentiated as regards producers and non-producers, and free from the complexities of *essential* foreign trade, will suggest the difficulty in the way of the practical application of that principle in the world of reality even under such relatively simple conditions, and may prepare us in due course to recognize the immensely greater difficulties to be faced under the conditions of the modern world, in which the enormous complexity of social and industrial relations renders it vastly more difficult to define social service, to estimate its social value and to measure its adequate reward.

CHAPTER IX

CAPITALISTIC PRODUCTION IN A SELF-CONTAINED COMMUNITY

Growth of Capital—The Capitalistic System—Productive and Un-productive Use of Labour Power—Saving—Spending—On what the Production of Capital Depends—What is meant by the Productive Power of Capital?—How is the Wealth of the Community Increased?—The Position in a Small and Self-contained Community without Foreign Trade—Agriculture the Primary Occupation—Capitalist Production Destroys Handicraft—Increase of Wealth and Poverty—The Limits of Capitalistic Production—Reduces Wages—Increases Rent—General Standard of Life of Workers broadly Determined by the Standard of Life on the Land at the Margin of Cultivation.

WHAT has been said up to this point is little more than an introduction to the study of the conditions of our present industrial and social system. There is between the present (call it the factory age or the age of machine industry) and the past (or the age of handicraft) a difference so profound that in examining them we seem to be regarding two different worlds. The problems of the one are not the problems of the other; and yet the elements that shaped the one still govern the character of the other. The primary elements, land and labour, and the secondary element, capital, are the economic factors in both, but they are combined in different proportions; and as in physical chemistry so in the chemistry of human

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societies, a change in the proportions of the constituent elements may produce a compound possessing quite new and unexpected properties.

In our earlier phase, Land and Labour were the two essential factors in production. By degrees Capital established its value as an aid to the individual in applying his labour. So long as Capital retained its simpler forms which could be produced and used by the individual worker, so long did it remain the useful and obedient handmaid of Labour, aiding it in its tasks and lessening the burden of its hours.

The time came when Capital grew into a veritable giant, capable of multiplying the productive power of human labour a thousandfold, an angel or a demon, a slave of the lamp or a Frankenstein monster, according to the spirit that called it forth. That spirit, unfortunately, was the spirit of self and not the spirit of social service; and, as a result, Capital became the master instead of being the servant of the worker.

The wonderful mechanical inventions of a century or so ago enormously cheapened production, and in the competition of the market quickly destroyed the simpler forms of industry under which the particular commodities had been produced. The new machines were most economically used in considerable masses, driven by a common source of power. The concentration of mechanical appliances, together with the correspondingly vast mass of raw material required, involved an outlay infinitely beyond the means of the ordinary worker. The simple instruments he might have possessed and could have used were rendered

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obsolete, and he was left with nothing but his labour. *Labour must either own capital or be owned by it;* and the latter condition had now replaced the former as the characteristic feature of the productive life of man. This divorce between Capital and Labour is the special phenomenon of this period. It marks that system of industry in which Capital has arisen as the triumphant master of Labour, and which is known as the *Capitalistic System*. We have to consider the more important results of that system on the material and the social well-being of the mass of the people.

In their material form these vast aggregations of Capital are familiar to all of us: great factories with hundreds of machines operated by thousands of men and women, steel works, mines, railways, fleets of ships, docks and warehouses innumerable. Measured in money these things are valued at thousands of millions of pounds. Hardly a day passes without its application for subscriptions to some new concern demanding its tens or its hundreds of thousands, and not infrequently its millions. Individually the masses of capital employed in the chief branches of manufacture are too large to be provided out of the accumulation of only one person. But they come from somewhere; and before considering their economic and social effects it will be convenient to learn the conditions of their birth, how they are maintained, and from what source their incessant increases are drawn.

It is said that Capital is the result of saving. This could assuredly not have been true of the aggregations of Capital at the beginning of the factory age.

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There was no cessation of consumption for a period in order to build up the fund by means of which the factory might be erected. What took place was mainly the diversion of labour from the production of one kind of thing to the production of another, from the building of palaces to the building of factories, from the casting of statues to the making of machines.

In reviewing the pre-factory phase of industry we found that the main accumulations of wealth lay in the hands of the land-owning and the merchant classes. That wealth depended in the main on the fact that they were able to appropriate a considerable part of the produce of the soil, and were consequently able to command a substantial part of the labour power of the country not required in agriculture. This labour power might be rendered unproductive, as in the case of bodies of idle retainers, or it might be used to produce things of value, the thousand and one conveniences and ornaments of the wealthy class. The person who possessed this command over labour power could utilize it in any way he pleased, or transfer its immediate use to others. In whatever direction the owner of wealth decides to use this labour power, the supply of food is not immediately affected. The food on which the workers live has already been produced. Nor has this decision any very material effect upon the labourer. It may perhaps call into use some unskilled labour previously idle, and so effect some small redistribution of the existing stores of food. But, for the rest, the builder continues to build, but a factory instead of a palace; the worker in wood or metal continues to work in wood or metal,

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but to produce a machine instead of an ornament. The mere fact that the things they make are to be used as Capital, as instruments of further production, is of no concern to them *at the moment*, whatever its ultimate consequences may be.

In the case of the wealth owner also the change was one of form rather than of substance. By his command over labour he had directed a palace to be built, a statue to be moulded. He had not "saved" his wealth, but had expended it in the production of something intended to be consumed; and the fact that the process of consumption might last for years or even for generations did not fundamentally alter the character of his outlay. If, instead of this, he directs the erection of a factory and machinery, he again expends his wealth in the production of something intended to be consumed. He has no more "saved" in the one case than in the other. It does not follow that he has *abstained* from enjoyment, since the sense of possession of a wealth-producing thing may give greater personal satisfaction than the mere ornaments of existence. *He has changed the form of his spending.* Whereas in the one case he had acquired things of *final consumption*, he has now acquired things of *intermediate consumption*, and, so far as the immediate present is concerned, that is all there is in it.

The mere change from the production of wealth in its general sense to the production of capital does not in itself necessitate any new or additional saving in the earlier phases of the Capitalistic System. The process of what has been called "primitive accumulation" was all that was necessary. We have

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already examined that process. We have seen how that accumulation became possible, how it was in the main the result of spoliation, and in whose hands the accumulation inevitably lay. The Capitalistic System grew out of these accumulations, or at least depended upon them in its early stages; and, as a consequence, the dominant classes of the preceding age continued to be dominant under the new system, drawing to themselves either as allies or as servants the ablest exploiters of that system.

In the same way it may be said that the subsequent increases in capital are not due to saving as opposed to spending, but to the fact that those who possess wealth, i.e. command over labour power, "spend" it in the production of Capital (wealth-producing things) instead of non-wealth-producing things. It is not the wealth so "spent" which maintains labour while these other things are being produced. The food which labour consumes must be in existence before this spending takes place. If I possess a thousand pounds the existing supply of food is not increased by an ounce because I decide to "spend" that thousand pounds. The existence of a supply of food at any one moment is an elementary and necessary condition of human life, the result of one harvest having to keep mankind alive till the gathering of the next. All I can do is to exchange my thousand pounds for part of this existing supply of food, and then to transfer that food to the workers in exchange for their labour power, which labour power is then used to produce such things as I desire.

The production of Capital thus depends primarily upon the existence of a present supply of food for

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the maintenance of labour, and in the second place on the passing of that food into the hands of those who desire to command labour for the purpose of producing instruments of further production.

Under what conditions will the producers of food part with it? Part with it they must, as their own capacity for consuming food is limited. Some of it they surrender as rent to the landowner; part they pay away in exchange for the implements and other things needed in their agricultural work; the remaining surplus is their profit, which they may part with under any conditions they please. Each of these "controllers" of food may command labour—indeed *must* command labour or transfer the food to others to do so. In the latter event they may (1) transfer the food without an *immediate* return therefor, or (2) may demand wealth in some shape for the food they surrender. In the first case the food owner is said to "save," but no literal saving takes place. The food is consumed, but the labour which consumes it is employed in creating "reproductive" wealth. In the second case the purchaser of the food is said to save by using his wealth to obtain command over labour instead of directly consuming it himself. No saving takes place. The wealth he might have consumed is transferred to and consumed by another. The food he purchases is, as before, employed in creating reproductive wealth.

Thus, however we approach this question, we find that it is not *actual saving* that creates capital, but *actual spending*; the crucial test being the character and purpose of the labour which such spending sets in motion.

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Food is always produced *in advance*, in anticipation of a demand in the following year, or, at any rate, at some future date.. If the demand is likely to increase, further land is prepared for cultivation. Here again the labour which performs this work lives on the already existing store of food. No literal saving takes place. The labour power which this food commands is applied to productive instead of to unproductive work.

Under the present economic system food will only be transferred by its owners in return for wealth in some form or another; and therefore those who desire to employ labour in creating "reproductive wealth" must possess or command the necessary store of wealth with which to *purchase* the requisite food. The storing up of wealth for this purpose is commonly necessary under present conditions if "capital" in the shape of factories, machinery, ships, etc., is to be maintained and increased; and this storing up is what is meant by "saving."

Where does this store of unconsumed, transferable wealth come from? Who stores instead of consuming it? Some is still derived by the process of primitive accumulation already described; but the vast mass of this unconsumed wealth is created by the use of capital itself. It is in the reproductive or creative power of Capital that lies its great value to the human race; it is also in this reproductive power directed by a craving for accumulation that lies the root of the evils of the Capitalistic System.

We must inquire what is meant by the productive power of Capital, what is the wealth created by it, and how that wealth is distributed.

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When labour is applied to raw material to produce a commodity or something ready for consumption, all that labour does in reality is to move things from one spot to another. All labour consists in the last resort of that. The force necessary to produce the motion comes from the muscles of the labourer, and is directed by the power of his brain. There can be no productive labour except in a combination of brain power and muscle power. In simple operations both kinds of power come from the same individual. In complex operations in which abnormal brain power is needed, or in which more than one person is engaged, the ultimate directive brain power is exerted by one single individual. Thus we have always to deal with both hand and brain power, sometimes in the same and sometimes in different persons.

If we take the common illustration of weaving, we find that in the case of hand-loom weaving both kinds of power are in the same individual, and, because this is so, certain conditions are inevitable: the machine must be of a simple kind; a series of complicated operations would be beyond the power of the average hand-loom worker; the size of the machine must be relatively small, since the physical power of the individual is limited; the speed of the machine cannot be great, since the power of motion of the individual worker cannot normally go beyond a certain point.

Thus the output of the hand-loom weaver is strictly limited.

A power-loom is invented. It performs mechanically almost all the operations which the hand-loom weaver had previously performed. His work is greatly simplified. He becomes little more than a

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machine watcher, and the possible output is no longer limited by the capacity of his brain to follow detailed operations. In addition, the machine can work at a speed infinitely beyond that of the individual, and a power can be applied exceeding human power many hundreds of times. The speed of output is limited merely by the risk of breakage of the material used. A single human being working in association with such a machine can produce many times as much cloth as he could produce if working a hand-loom.

If we leave out of account for the sake of simplicity the relatively small amount of labour "embodied" in the machine and in the fuel used, we may have this position: one hundred men with hand-looms produce 10 yds. of cloth apiece, or 1,000 yds. in all; ten men with power-looms produce 1,000 yds. in the same time. *Has the real wealth of the community been increased?* There remains in each case 1,000 yds. of cloth; but in the one case the maintenance of 100 men has been consumed, and in the other the maintenance of only ten men. If the 90 displaced weavers do no work, but receive the same maintenance as before, the effect of the machinery—or capital in the shape of machinery—is to increase leisure, but an increased leisure which is unfairly divided—ten men getting none of it and 90 men getting it all. Otherwise the wealth of the community remains as before. Suppose, however, the 90 displaced weavers do no work and get no maintenance; the wealth of the community is increased by the amount the 90 men would have consumed. *The community has saved at their expense.*

If the capital in the shape of machinery is in

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private ownership, the owner gets what the 90 men would have received—subject, of course, to the cost of the machinery, fuel, etc., above referred to; and *he gets this whether the 90 remain idle or find other opportunity to labour.*

Let us suppose this community to be small and self-contained, i.e. it has no foreign trade, and consumes only what it produces itself.

Some of the people weave cloth, others produce food, others pottery, buildings, and so on. These various kinds of produce are exchanged one for the other. The weavers get food and other things in exchange for their cloth. The others get cloth in exchange for the food, etc., they produce. *There must be a certain relation between the quantities of the different things so produced.* Food must be produced for all, and therefore a certain proportion of the people *must* be employed in the production of food. The rest of the people will be engaged in other ways, and the demand for the things they produce will depend upon the amount of the surplus food which can be exchanged for them, and the degree to which these things themselves are regarded as necessities or luxuries. Any such state of society is therefore able to absorb (that is, produce and consume) a certain quantity of food, clothing and other similar things. So long as the state of society does not change, so long will its power of absorbing different classes of things remain unchanged.

The small community in which our hand-loom weavers live can absorb a certain quantity of cloth, and can exchange for that cloth a share of its other produce. Our capitalist factory owner now comes

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along, and his factory produces an exactly similar quantity of cloth. The rest of the community are not concerned with the way the cloth is produced. They desire the cloth, and are prepared to exchange their own produce for it. If the machine-made cloth is offered in exchange no more cheaply than hand-made cloth, both kinds of cloth would be produced, and the increased supply would involve a smaller exchange value per piece *since there has been no increase in the other things which the community is prepared to exchange for cloth.* The hand-loom weavers must therefore be stopped from further production. This may be done in various ways; but the competitive method is to reduce the exchange price of the cloth until the cloth woven by the hand-worker will no longer exchange for enough to keep body and soul together after meeting the cost of the raw material, pinch how he will. The community thus gets its cloth at a somewhat lower price from the capitalist factory, but it loses more than this advantage, since, directly or indirectly, it must support the displaced weavers if they do not find other opportunity to labour. The bulk of the advantage of factory production thus goes in the first place to the factory owner.

We have then this position : a capitalist with an unconsumed surplus of wealth which he may (or *must*) exchange for a command over labour power in some way, and a quantity of labour power lying idle. Put in another way, we have an accumulation of wealth in individual hands on the one side, and a section of the community reduced to poverty on the other. Up to this point the power of

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capital in private hands has been merely a source of evil.

Our capitalist is now in possession of a considerable command over labour power, and he must use it or transfer it to others to use. Part he may employ in purely personal luxury—domestic servants, footmen, grooms, etc. Some of the idle labour power is thus absorbed, and a non-productive, economically helpless, parasitic class makes its appearance. Then some of this command over labour power he may use for the purpose of erecting another factory and producing still more cloth. Part of the idle labour is then absorbed in the factory, and part in producing the additional raw material required by the new factory.

There is now an actual increase in the wealth of the community, viz. the amount of the additional cloth produced. Thus the capitalist, by means of his factory, displaces labour, acquires a "surplus" of wealth, obtains through this a command over labour power, and by means of this uses unemployed labour to create further wealth (factory—raw material—cloth). In other words, the wealth of the community is increased only to the extent to which the labour displaced by the machinery finds other opportunity of productive work; and where the capital in the shape of machinery is in private ownership and the accumulated wealth belongs to such owner, it is entirely for him to decide whether the aggregate wealth of the community shall be increased, or whether it shall remain as before, with a poverty class and a parasitic class as new features in the community.

The capitalist uses part of his wealth so acquired

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to put up a new factory. As above suggested, the aggregate wealth of the community is increased; but *how far can this process go?* The people already have enough cloth to satisfy their normal requirements. It may, however, fairly be assumed that they will take more cloth or cloth of better quality if they can get it. But they themselves have no more produce to exchange than they had before. They must therefore offer the same amount of their own produce in exchange for a larger supply of cloth (in which case our capitalist would not produce this larger supply), or they must cease purchasing less desirable things in order to have something to give in exchange for this cloth—thus throwing some labour “out of work” to employ a smaller quantity of labour in the cloth factory.

It would thus appear that where, in a small, self-contained, competitive community, machine industry is introduced into only one branch of manufacture, the amount of the produce of such industry cannot very far exceed that of the handicraft it destroyed—the productive power of the rest of the community remaining as before.

The wealth accumulated through such limited machine-industry must be a temptation to others; and, unless the right to use such machinery is restricted, others will strive to enter the industry to share the “plunder.” The additional produce cannot be disposed of; and there follows a lowering of prices until the machine owner surrenders much of his abnormal “profit” for the sake of selling his produce. When the limit of such fall in price is reached, the excess machinery is so much scrap iron and is cast aside.

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Let us now follow some other consequences of this process. Certain hand-loom weavers were displaced and were left with nothing but their labour power, which, for the time, nobody wanted. They had clung to their weaving so long as it afforded a bare subsistence; and, the compelling force of hunger being what it is, they are prepared to sell their labour power to anyone in return for that bare subsistence, or to work in any other way for such a return. Competition, which had brought down the exchange value of cloth when there was more cloth than the community normally required, now brings down the price of labour power, now that there is more labour power than the community normally requires. Our displaced weavers offer their labour power to anybody who will buy at the bare cost of subsistence; and therefore employers of labour will employ them on any work for which they may be fitted rather than pay a higher rate to others. In short, *a movement has begun to lower the wages of unskilled labour to bare subsistence point.*

The lowering of the Standard of Living of Labour results in an increase in the rent of land. The margin of cultivation falls, since poorer land will now afford a living on the reduced standard (our displaced weavers may perhaps find work here), or the lowered cost of labour will leave larger agricultural profits out of which rent can be taken. The production of the additional raw material for use in the factory also creates a further demand for land, and further payment of rent.

Machine production does not stop with one particular class of manufacture. The inventive faculties

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of man, spurred on by that restless inquisitiveness which marks the activity of the human mind, assisted and encouraged by the greed for acquisition, soon find methods of applying machinery to other forms of production. In the meantime, wealth is accumulating in the hands of a small number of individuals; and this command over labour power finds its opportunity in extending the capitalistic system of production. Further numbers of handicraftsmen are displaced by the factory; and, in addition, new industries spring up to supply the luxuries demanded by the increasingly wealthy class. The decline of wages to the subsistence point continues. First because the wage labourer can only live by finding employment, and as yet there is no power to *compel* the employer to give more than he *must*, i.e. more than bare subsistence; and secondly because the natural tendency of those who possess wealth and seek personal gratification from it is to use their command over labour power to produce their luxuries rather than food for the community. *The wage of labour measured in food must under such circumstances shrink.*

Thus we see that mechanical invention in private ownership applied to manufacture *in our small self-contained community* leads to the creation of a small wealthy class economically dominant, and a large wage-earning class poor and economically helpless.

What happens when the processes of agriculture are improved by new appliances or better methods?

Under the simpler conditions of agriculture productivity depends largely upon the natural fertility of the soil. A larger area is cultivated than is necessary to produce equal crops under more scientific

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methods; and resort is made to less fertile ground in the one case than in the other. The general standard of life of the mass of the workers in such a community under such conditions must be determined to a great extent by the standard of life of those *who are working land on the margin of cultivation*. If the conditions of the town labourer are in a marked degree the better, the least fortunately situated of the land workers must tend to drift to the town. If the conditions are reversed, a contrary movement is set up—provided the land is accessible to those who desire to work upon it.

Improvement in agricultural methods will have one of two results :

- (1) There may be an equal quantity of produce and a smaller area of land worked, or
- (2) The same area of land and a larger production.

In the first case, the produce at the margin of cultivation is much larger than before, since the margin itself is higher and better methods are applied. This position is humanly impossible unless the land assumed to have fallen out of cultivation were absolutely excluded from productive use by conversion into private parks or pleasure grounds. If such a condition did arise, the additional profit from the land after allowing for interest on capital would flow into the pocket of the landowner.

The more probable result of the application of better agricultural methods under such circumstances is a larger produce from an undiminished area of land. Bearing in mind that we are considering the case of a self-contained community, which neither

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exports nor imports, it is obvious that the general standard of life would be raised. The mere fact that agricultural produce is intended for consumption, and that the capacity of any one individual is limited, means that an increase in the amount of such produce must tend to spread itself over the whole population, the labourer receiving a larger wage (measured in food) than before. Or, again, the possibility of acquiring an alternative subsistence from land previously not productive compels employers to offer better terms to labour than before. Increase in population not accompanied by still better methods of agriculture would in time rob the labourer of this advantage; but that circumstance does not alter the fact that the application of capital to or the adoption of better methods in agriculture confers advantage on the wage earner. A very different state of things may arise where export and import take place; but that will be a matter for separate consideration.

So far we have dealt with the effect of the appearance of a capitalistic system under simple conditions; and, in order that the picture may not be blurred by too many confusing factors, we have assumed a small self-contained community, without exports or imports, and have ignored the changes both in the production and more particularly in the distribution of wealth which result from combinations of capital and combinations of labour. Nor have we considered the effect on both production and distribution if capital and land belong to the community as a whole. Before attempting to deal with these complex issues, it is necessary to be clear as to the effect of capital in

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private ownership in a community dominated by self and under the simplest conceivable conditions.

We may sum up the lessons to be learned from capitalistic production in a small self-contained community thus :

(1) Agriculture is the foundation of society. The number of the population will be determined by the average amount of food produced, having regard to the general standard of living. The standard of living of the mass of the workers will be determined by the standard of life of those who are working land at the margin of cultivation.

(2) The application of capitalistic methods to manufacture results in an increase in the aggregate wealth of the community, but a growing concentration of this wealth in few hands, the appearance of (or the increase in) a poverty class and a parasitic class, a cheapening of factory products to those who can afford to buy them, and last but not least an increase in rent.

(3) The application of improved methods to agriculture raises the standard of living of the mass of the workers if the area of available land is not artificially restricted, but this improved standard is liable to be lost if the population increases faster than the rate of improvement in agriculture.

CHAPTER X

CAPITALISTIC PRODUCTION AND THE WORLD MARKET

Capitalistic Production and Foreign Trade—Removal of Limitations on Machine Industry—The World becomes the "Self-contained Area"—Rapid Expansion of Manufacture for Export—More Labour Absorbed—Resort to Labour of Women and Children—Advantageous Position of the First Factory Goods in the Foreign Market—Effect of Import of Cheap Food—Lower Agricultural Rents—Labour Driven off the Land—Growing Wealth of Manufacturing Class—Fall in Agricultural Rents outpaced by Rise in Town Rents—General Effects—Demand for Raw Material—Exploitation of Native Races—Extension of Capitalistic Production to Other Countries—International Competition—Rival Imperialisms and War—Unemployment—Review of Results of Capitalistic Production.

LET us now remove the barrier against foreign trade and consider the effect of capitalistic production where export and import are possible.

In the case of the self-contained community we found a certain relation between the numbers necessarily employed in agriculture and the non-agricultural population, and a certain consequent limit to the expansion of machine industry. These limitations are now swept away. The food for the population can be drawn from other countries, and the output of the factories absorbed by other countries. The "economic area" (that is, the area within which all production, exchange and consumption take place) is

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no longer the limited community but the whole world. In short, the whole world becomes the "self-contained area"; and the economic effects of capitalistic production which we have traced in the case of the small self-contained country must appear also throughout the world, *when the world as a whole is as fully developed as our small community*. That result lies in the remote future; but the immediate effects on our particular community are of the utmost importance and significance.

We will return to our cloth factory. The *power* of production was vastly increased; but the actual increase was relatively small in view of the limited market; and a considerable proportion of the old hand-weavers were displaced on that account.

Other peoples beyond the seas desire cloth, and are willing to exchange their produce for it. They may have their own "hand-workers"; but, just as the factory displaced the handicraftsmen at home because of its more economical production, so it displaces the hand-workers abroad. It can now dispose of a greatly increased output; and it finds no rivals abroad until the new methods of production have become known there and the necessary body of trained workmen established. This enormous expansion in the world market leads rapidly to the erection of more factories in the "home" country, and, as a consequence, to the absorption of the displaced weavers or other labour. A period of great trade activity follows; and there arises a pressing demand for labour for this particular industry and the trades allied with it. Thus we find an increased demand for builders and building material, for machinery and

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therefore for ironworkers, for coal, for engineers, for labour in transport; and, if the raw material of the industry can be raised in the home country, then an intense demand for such raw material.

Let us consider the chief consequences of this export of manufactures.

The number of factories is greatly increased. For every one necessary to supply the previous home demand, possibly ten arise to supply the world market. Demand for labour occurs in two ways, the heavy labour in building and equipping factories, supplying fuel, etc., and the lighter labour needed to attend the machines themselves. No considerable supply can be taken from agriculture until adequate quantities of food can be imported from abroad; and the existing working population is incapable of sudden increase. The demand for cheap labour can be supplied by drawing upon sections of the people not previously employed in industry; and the wives and children of the workers are forced into the factory and even into the mine. A distinct degradation of labour is the immediate result of the introduction of such "labour-saving" machinery; and, if we may judge by the history of this country, the magnified profit resulting from this state of economic slavery, instead of leading to an improvement in the condition of the workers, itself furnishes the greatest stimulus to the greed of the manufacturing class, and offers the most stubborn obstacle to the relief of the labouring mass.

Our manufactures have now to be sold. Part is taken by the home consumer, but most is sold abroad in the world market for which it was produced. The first country to develop its machine production mani-

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festly enjoys an enormous advantage in the foreign market. Its commodities have to meet the competition merely of hand-made goods produced under relatively primitive conditions, and therefore of high value compared with the produce of the soil. The factory goods under such conditions can be sold cheaply enough to stimulate an increased demand, and yet dear enough to yield a high return in the shape of the foreign produce for which they are exchanged. The things so taken in exchange must necessarily consist largely of the produce of the soil (food and raw material), of luxuries which may command a ready sale at home (spices, native art, etc.) and concentrated wealth of universal validity (such as gold and precious stones).

The raw material thus cheaply acquired passes into the factories, and the consequent profit stimulates still further the hunger for production.

The food imported, obtained at relatively low cost, is cheaper when sold in the home market than similar food produced within the country. The price of food goes down. It becomes more abundant. The *home* margin of cultivation rises, since the less productive soils can no longer be worked at a profit. Certain important consequences flow from this.

The economic rent of agricultural land falls; but the sitting tenant may be bound to the soil either by a lease for a period of years or by the fact that his capital is sunk in his farm. For some years he may be compelled to pay rent out of his capital. The standard of cultivation deteriorates. Agricultural distress settles on the country. Both tenant and farm labourer are steadily pressed down into more and

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more hopeless poverty, some labour being driven away through the sheer inability of the farmer to employ it. In addition to this, the necessity of cutting down farming costs induces a change from the production of things (such as wheat) which have to face the competition of the imports to pasture—cattle requiring less outlay on labour and being less open to “foreign” competition. In both ways labour is driven from the soil and forced to seek a livelihood in the towns—where the doors of the factory stand waiting to receive it.

The factory wants the labourer and the labourer wants food. Which demand is the more insistent depends on circumstances. If it were not for the labour of woman and child, the advantage might rest with the worker, and the change lead to an immediate improvement in his standard of life. But the labour of woman and child renders the factories more independent of him. He finds the supply of labour greater than the demand, and is compelled to accept any wage that is offered to him. He finds himself, in short, living on the verge of subsistence in spite of the cheapness of the food which flows in from abroad. Labour-saving devices have thus degraded the worker and continue him in his degradation so long as he, wife and child stand helpless, unorganized and alone in the struggle for existence.

Meanwhile the manufacturer is accumulating enormous wealth. Part of this goes in the erection of further factories, and part is spent in a more luxurious way of life.

The receiver of agricultural rent has seen a fall in his income. Some of this, however, he escapes owing

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to the demand of the industrial magnates for land; and, *as a class*, the rent receivers gain far more than they lose in view of increasing royalties from mines and a rapid growth in the value of the town sites which they own.

Thus we see that as capital expands the aggregate wealth of the community rapidly increases; but *its distribution becomes more and more unequal*. A small class grows enormously in riches, and the mass of the people sink steadily into poverty. The country ceases to be self-supporting in its production of food, while the number of able-bodied citizens fit for productive work, but engaged in unproductive services, increases. The community becomes diseased—the scorn and indifference due to great wealth on the one hand, the ever-growing canker of poverty and insecurity on the other; while year by year it becomes more dependent on foreign supplies, liable to destruction by chance or foreign foe if those supplies are cut off. This inverted or perverted condition of things is due entirely to the fact that economic power—the access to nature—is centred in few hands, and that those hands are controlled by the self-regarding instincts common to the whole community.

The change in the distribution of the total income of the community resulting from the organization of labour on the one hand and the rapid increase at times in the demand for labour on the other, form part of the general question of distribution. In the absence of such influences, however, the purely individualistic system must have intensified these contrasts of wealth and poverty until the state collapsed from its own internal rottenness, or until the people,

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driven to desperation, rose in revolt and threw order into chaos—to build a new system on the wreck of the old, or to start the weary round of the old system once again.

The progress of mechanical invention and the increasing mass of capital hungry for profit cause a rapid expansion of factory industry. The possible output of even one small country is almost without limit. It might, indeed, supply the world if it could retain a monopoly of machine industry. Such output is limited in any case in two directions—the capacity of the world market to absorb it and the supply of raw material which the world can furnish. For a considerable period the demand for the manufactured product must exceed the supply of raw material. The cheapening of the commodity involves an increase in the power of the world to purchase it. Many consume more than before. Many can afford it who could not afford it before. The inducements to those who produce the raw material cannot operate to increase the supply so rapidly as the world demand for the manufactured article increases. The hungry machines demand their “food”; and capital is directed in ever-increasing quantities to its production. If it be tropical produce for which native labour is necessary, such labour is forced either in the form of slavery or by any extreme of compulsion. Capital has no soul; and the greed for wealth, when once the poison has found its way into the life of a people or a class, knows no mercy, recognizes no moral sanctions. Among civilized people it may be unable to exercise direct physical compulsion, but legal and economic pressure is as effective. In the remote parts

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of the earth, however, its power is free from such restrictions, and the record of its actions is an indelible stain upon the history of the race. The insatiable craving for raw material leads inevitably to the conquest and exploitation of tropical peoples, and to the settlement and development of the unoccupied spaces of the globe. The country which produces largely for export is *driven irresistibly* to Imperialistic expansion sooner or later. The first in the field is the first to feel this compelling force, and is consequently the first to lay hands on those parts of the world from which its raw material must be drawn.

As this process goes on, the change in the industrial and social conditions of the home country proceeds. Agriculture declines. The country becomes more and more like a vast workshop. The people are drawn in ever greater number to the industrial centres, depending for their very existence upon their wages from the factories and the food imported from abroad. Wealth accumulates; and the wildest extravagance and luxury are flaunted in the eyes of toiling millions, who probably have no more than a week's wage between them and destitution.

A new phase opens in the extension of the system of large scale production to other countries. England used to be referred to as the workshop of the world; and there have been some who have dreamed of a world in which England provided the manufactures to all, and the rest provided the raw material. It is a ghastly picture, but not realizable in fact. Capitalistic production appeals to the appetite for accumulation, and that appetite is not confined to any one country. Although one may get a start, it cannot

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long remain without competitors; and, sooner or later, every country possessing the necessary energy, and the necessary foundation of machine industry in the shape of iron and coal, will enter the field to manufacture for itself, and—inevitable result of the nature of machine industry—for the world market as well.

We enter upon the stage of international rivalry in the field of trade and manufacture, a stage in which the world has not yet gone very far, but which has already brought about a clash of conflicting interests great enough to shake Western civilization to its foundations. The productive power of any one country in the field of manufacture might well be sufficient to supply the world. Under the existing system each country must strive to develop its productive power to the utmost—and inevitably the aggregate capacity of the competing countries to produce must soon outstrip the capacity of the world market to absorb and the supply of the necessary raw material. There follows accordingly a struggle for a predominant position in the world market, and no less keen a struggle to control or seize the lands from which the raw material can be obtained. Imperialism in the single manufacturing country has consequences far-reaching enough; but the clash of rival Imperialisms means inevitable war.

In this international struggle between rival manufacturers the workman is vitally interested. The wage he gets from the factory is the channel—and *the only channel*—through which food and the other necessities of life can reach him. It is evident that the fluctuating fortunes of the employers in this universal

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trade war concern him very nearly. They may involve an increase in his wages, or a decrease, or that greatest evil of all, insecurity and unemployment. Without anticipating the general discussion of distribution, we may consider here how capitalistic production inevitably causes unemployment, or aggravates it where it already exists.

A manufacturer produces commodities through the application of labour (assisted by machines) to raw material. He uses capital to purchase this raw material and hire this labour. In due course he sells the commodities for wealth (e.g. money) with which he can again buy raw material and hire labour. Thus he must not only produce but he must also sell, and unless he can do both he cannot continue in business. It is clear that he cannot go on producing goods indefinitely unless he can sell the things he makes, since, however wealthy he may be and whatever credit he may command, there is a limit to his power of purchasing raw material and labour. That power must be renewed by selling his products, or the limit of his capital will be reached—and he must shut down his works.

Not only so. He must be able to sell at a profit. It is evident that if he sells for less than the goods cost him to make he starts making the next lot of goods with a smaller power to buy raw material and hire labour. For example, he starts with £1,000. He buys raw material and labour to the amount of £1,000. If he sells all the produce for £800, he can now buy raw material and labour to the extent of £800 only. His business becomes smaller, and if he went on in the same way it would very soon come

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to a stop. The manufacturer must therefore sell, and, in the long run, sell at a profit, or his business must cease; and if his business ceases some labour becomes unemployed.

A man cannot sell unless there is also a man willing to buy. Our manufacturer, therefore, cannot sell the mass of goods he makes for export unless he can find people abroad willing to purchase his goods, that is, possessing wealth which they are willing to exchange for his goods and which he is willing to accept as a sufficient return. If anything makes it impossible for the people abroad to buy his goods he cannot sell; and not being able to sell he cannot go on producing as before, and cannot continue to employ labour as before.

We have seen that goods are exported from this country to be exchanged partly for food and raw material. Suppose harvests abroad happen to be exceptionally bad and the amount of food produced unusually small. The surplus food which the people abroad are able to exchange for the goods sent to them is evidently greatly reduced, and therefore the power of the people abroad to purchase such goods is diminished. They cannot buy as much, unless our manufacturer is prepared to sell his goods far more cheaply, i.e. to exchange the same quantity of goods for a much smaller quantity of the foreign produce. Unless this smaller quantity of produce when brought home will command as much labour power as the larger quantity obtained in normal times—a condition which is practically impossible, or possible only where the *real* wages of labour at home is decreased—the transaction results in a loss to the home manufac-

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turer. He may perhaps bear a casual loss; but he cannot go on losing in that way. He therefore sells only part of the goods he has manufactured, and holds up the remainder. Unless the accumulated stock is quickly taken up by a revived prosperity among his customers, he must lessen the amount of his further produce, since, as already pointed out, there is a limit to the amount of goods he can manufacture without corresponding sales. If he cuts down his production he requires less labour, and a section of the workers find themselves unemployed. Thus bad harvests abroad by diminishing the purchasing power of the people abroad lessens the demand for home manufactures and causes unemployment.

In much the same way a marked falling off in the supply of raw material abroad reacts on employment at home, whether the short supply is due to natural causes (as a failure in the cotton crop) or to human causes (as the cutting off of the supply as the result of war). Failure in the supply of raw material has also, of course, the direct effect of leaving factories idle and so throwing labour on the street.

Where any particular class of manufacture is yielding profits above the normal rate, new accumulations of capital, which are continually coming into existence and seeking an opportunity of profitable use, tend to flow towards this specially attractive field. The consequent rapid expansion in production may bring into existence a mass of the particular commodity exceeding what the people of the world are able or willing to purchase even at a rate no higher (or even less) than the cost of production. The inevitable consequence is both an accumulation of stocks

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of such goods and a fall in the rate of profit to a figure below that on which capital can be maintained. Both facts cause unemployment. Production must be cut down below even a normal figure while stocks are disposed of, and many factories close down altogether because they cannot afford to go on without profitable sales.

Again, in the competition between different countries it is possible that a particular class of manufacture may be slowly destroyed in one country and slowly built up in another. Even though the total production does not exceed what the world can absorb at remunerative rates, labour in the one country may be thrown out of employment and labour in the other find itself in exceptional demand merely because labour cannot flow as freely from one country to another as it can from one part to another part of the same country.

Thus we see that the very immensity of the productive power of capital employed in manufacture under competitive conditions is itself a cause of unemployment. It lessens the price of food by drawing cheap supplies from abroad, and so drives the workers from the land at home into the towns. It increases the normal supply of food by its abundant imports, and so encourages an increase in the population of the towns. It leaves that growing population dependent upon its own continuous working; and its own continuous working is impossible, because it must of necessity rely upon fluctuating conditions in other parts of the world over which it can in the nature of the case exercise no control.

Some further aspects of the problem of Capital—

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such as combinations, monopolies, control of production and prices, State control or nationalization—will be considered later; but enough has been said to give a general idea of the nature of Capital, its value in production, and the evils to which it gives rise when its control rests in the hands of a relatively small section of the community, under the governing impulse of individual profit.

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It is desirable that the student should from time to time review what he has read in order that he may recognize that his studies form a consistent whole, the parts of which are clearly related to each other, and that he is not dealing with a variety of abstract questions which have no direct or logical connexion with each other. It may therefore be convenient if we compare the social and industrial conditions brought about by, and the limitations in the development of, capitalistic production in a self-contained community and in one which is free to trade with the whole world.

In our small, self-contained community it was obvious that agriculture was the primary industry of the people. The very life of the community depended on it, and its condition governed the standard of living of the whole. Agriculture must, therefore, have occupied a certain proportion of the people, varying according to the fertility of the soil and the progress made in the science of agriculture, but not reducible below a figure adequate to supply the essentials of life to the whole community. The number of people who could be engaged in manufacture, or be unproductively employed or live in idleness on the labour of others, was the balance after

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deducting the numbers required in agriculture. Just as there was a limit to the supply of food and the raw material of industry within the country and a certain proportion of the population engaged in producing such things, so there was inevitably a limit to the productive use of capital and the number of people employed in manufacture. Accumulation of capital beyond that point could find no opportunity of use unless agriculture could be made more productive or the standard of living of the worker be reduced. A reduction in the standard of living would serve the same purpose as an improvement in agriculture in so far as the result was an increase in the number of people able to live on the produce of a certain area. An accumulation of capital beyond its "employable" point could only result in the destruction of the surplus—representing so much wasted labour—as the result of a struggle to the death between capitals seeking profitable employment.

In the same way an increase in the population beyond the "maintenance" point could only result in the death of the surplus as the result of a struggle for an adequate share of the limited food supply of the country.

What is true of the small self-contained country is equally true of the world itself, and it will assist us in an attempt to appreciate world economics if we try to picture to ourselves the world as a "self-contained" economic area. A certain proportion of the world's productive power must be devoted to agriculture, to the supply of food and other root necessities of human life. As capital accumulates and seeks continually profitable employment, it must find its workers out

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of the remainder of the population, the non-agricultural section; and out of this remainder also must come the non-producers demanded by the wealthy for their personal service. Capital accumulates faster than life, and its growth demands a rapid increase in the non-agricultural section of the peoples. This increase can only be rendered possible by an improvement in the art of agriculture (which takes place to an altogether inadequate degree), or by an extension of the area of land under cultivation (which has taken place with enormous rapidity during the past fifty years, and the further extension of which is therefore becoming increasingly difficult), or by a reduction in the standard of living of the mass of the workers. This takes place in effect by the extension of agriculture in those parts of the world where the normal standard of life is much below that of the average worker in the industrialized states; but sooner or later, if the growth of industrial capital continues unchecked and if no abnormal improvements in food production take place, this lowering of the standard of living must reach even the most advanced communities—a result that can only be avoided by a radical alteration of the system of Production and Distribution.

We may regard the world as being at any moment a self-contained economic area, whose limits are capable of expansion if the pressure is great enough. The rapid accumulation of capital supplies this pressure; but the economic limits of the world cannot be expanded fast enough to absorb this growing mass of capital. As a result we find some increase in the production of food and raw material and some increase in the amount of capital profitably employed; but also

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an incessant struggle among these growing masses of capital for such profitable employment, and a continuous destruction of part of this excessive capital—sometimes by the establishment of industries and their failure with the loss of the capital so employed; sometimes by the colossal destruction of capital involved in war between nations. It is indeed worthy of serious consideration whether the too rapid growth of capital does not make such war “inevitable” under our present competitive system.

Meanwhile the continual pressure of capitalistic industry to expand means that more and more of the workers in the more advanced countries are sucked away from agriculture into the factories. This drift from the country into the town is conspicuous in all the chief industrial states; and is probably one of the main causes of the industrial ferment which, with ever-growing strength, disturbs the modern world.

CHAPTER XI

MONEY—REAL WAGES

Money—A Medium of Exchange—Barter Practically Impossible in an Advanced State—A Common Commodity of Exchange—Why Gold or Silver generally Adopted—The "Commodity Value" of the Money Substance—Silver and Copper Coinage—Token Money—Paper Money, Substitute Money, does not Circulate as "Money" Abroad—Effect of Paper Money on the Purchasing Power of Wages—Advantage of a Gold Currency to the Worker—An Automatic Check on the Amount of Currency—Over-Issue of Paper—Rise in Prices—Fall in Real Wages—Foreign Trade—International Money.

WE have so far assumed that labour draws its reward in the shape of food and the other things necessary to support life. This is clearly enough the essential truth of what takes place. Labour parts with its labour power—it has nothing else to part with; and it receives food—because without food it could not continue to exist. Whether it receives more than the merely necessary supply of food depends on circumstances. In the world of fact, however, things do not happen like that. The labourer receives his wage, not in the shape of so much food, but in the form of money; and this money he may in turn exchange for food and other necessary things. Now the money, it may be a metal coin or a paper note, is not of the smallest use *in itself*. The labourer can neither eat

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it nor wear it; and it is food and clothing that he must have. His money wage is therefore only of use to him to the extent to which he can purchase with it food and the other things he needs. From this it is clear that if we wish to understand the real economic position of the labourer we must learn what "money" is and the part it plays in his life.

We have already seen that there can be no great advance in the material welfare of a people until division of labour has become established among them. Division of labour implies also exchange of the produce of labour. If one devotes himself to growing wheat, another to making boots, another to clothes, and so on, it is evident that the total produce of the whole will be greater than if each tried to grow his own food and make his own clothing. On the other hand, it is equally clear that no man could give his whole time to making boots unless he could exchange some of the boots for food and other things. Division of labour and exchange, or trade, are therefore inseparable, like the two sides of a medal. One cannot exist without the other.

How is this exchange to be made? How much of the things produced by one man are to be given in exchange for the things produced by another?

In the simplest states of society we may find goods actually exchanged for goods, i.e. trade takes the form of barter. The bootmaker gives a pair of boots for so much corn or so much cloth. This is a simple enough process when one man actually makes the whole of the boot or weaves the whole of the cloth; that which the man produces is a distinct commodity, which is in a condition to be of use to the producer of

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other things. But so soon as the making of the final commodity is divided up into various processes, the direct exchange of goods for goods becomes difficult, if not impossible. For example, one man spins yarn which another man weaves into cloth. The spinner needs to exchange his yarn for food; but the wheat-grower wants cloth, not yarn. The yarn must somehow or another go to the weaver. It would be a very cumbrous process if the spinner exchanged yarn for wheat from the farmer, and the farmer then exchanged the yarn for cloth from the weaver; and equally cumbrous if the spinner exchanged his yarn for cloth, and then exchanged the cloth for wheat. Still more troublesome would this method be when processes became more divided.

It would clearly be a great convenience if each of these possessed some special commodity which everybody was willing to accept in exchange for his produce or whatever he had to sell. This common commodity is *money*. It matters not what it consists of, cowries, beads, metals, or anything else. If all are willing to accept it in return for their goods it serves the purpose of money. In most countries the common commodity or medium of exchange consists of coins made of the precious metals; but merely because money in that particular form is found most convenient.

Let us see why the gold or silver coin is so generally adopted to serve as this common medium of exchange. In the first place, the thing which is selected for use as money must be small in bulk. One could imagine lead or iron or even common bricks being used for this purpose; but the enormous bulk

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and weight required to represent a common value clearly makes such substances inconvenient or impossible. Then, as money is to serve as a common measure of value, its own quantity should be clearly and definitely marked. Just as it would be absurd to use any piece of stick as a measure of length unless its own length were first determined and clearly marked, so it would be extremely inconvenient if the quantity of the money substance had to be separately measured at each transaction—as indeed has been done, e.g. on the goldfields, where gold dust weighed in scales has not infrequently been the medium of exchange. A coin may show at a glance the quantity or value of the money substance it contains—so much gold or silver as the case may be. Therefore we need for money purposes something that may be stamped into the form of coins of an exactly determined weight. Then again, our coin should be of a substance which does not easily wear away or rust away.

Further, our money substance must have *an intrinsic value of its own* corresponding to that of the goods for which it is exchanged. Bottled sea water might be used as money; but it is obvious that if bottled sea water could be exchanged for goods, nobody would go to the trouble of producing goods when he could get the sea water money by the pailful without the least difficulty. Everybody would be bottling sea water. For the same reason, no substance which is very common and easily obtained could serve the ordinary purpose of money. Man will naturally get what he wants in the easiest way that is open to him; and it must therefore be, broadly speaking, as difficult to produce the money substance

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as it is to produce the goods for which it can be exchanged. The intrinsic value of the money substance depends in large measure upon the "cost" (in labour and commodities) of producing it. The precious metals fulfil that condition.

Lastly, it is necessary to state that if the value of the money substance is measured by its cost in labour and commodities, it is essential that the cost so measured should not be liable to great and rapid changes. If, for example, in one year an ounce of gold cost one day's labour and could be exchanged for so many yards of cloth; then, if in the next year ten ounces of gold could be produced by one day's labour, it is evident that the producers of cloth would not give so many yards for each ounce of gold as they did before. Under such conditions gold coins would be continually changing in value as compared with cloth; and the man who gave cloth for gold coins might find that the value of his gold coins had changed again before he came to change them in his turn for other things. The cost of obtaining the money substance must therefore be liable to little change if it is to serve conveniently as a general medium of exchange between other commodities.

All the conditions above set out are best fulfilled by the substance gold; and, for that reason, most of the countries of the world have adopted gold as their real money substance. In short, gold is a commodity whose value as a commodity is measured like that of other goods, but whose peculiar character makes it very convenient as a common commodity of exchange. When gold is given for goods we are said to purchase the goods; the amount of gold given is said to be the

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price of the goods. In fact, however, we are merely exchanging one commodity for another; and it is important to remember that all trading may be reduced to this: the exchange of commodities, of which gold is one.

Now it will be said, how can it be true that gold is the money substance, the universal medium of exchange, the common measure of value, when we have silver money, and copper money, and even paper money, when, in fact, at the present moment we have practically no visible gold money at all?

First let us consider our silver and copper coinage.

One important quality in the money substance is convenience in size. If its value is to correspond with the value of the goods for which it is exchanged, then, in a country such as England where the standard of living of large sections of the people is comparatively high, many commodities are of considerable intrinsic value, and the money substance must have great value in small bulk. As a consequence, when small quantities of goods, particularly of goods commonly required by the poorer sections of the people, are exchanged for money, the amount of this valuable money substance would be inconveniently small. We could have gold coins corresponding to the value of our silver and copper coins; but they would be so minute in size as to be unsuited for common use, and the differences between gold coins of very small values would make it a matter of considerable trouble to distinguish one from another. It is, therefore, a great practical convenience if these small quantities of gold can be represented by something else, more agreeable in size, but possessing the advantage of a metal

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coinage. To get over this practical difficulty silver is used to represent moderately small values, and copper very small values.

It must be remembered that these coins merely take the place of gold coins which would be inconveniently small, and that they therefore always represent a fixed quantity of gold. Thus a silver shilling represents a gold coin having one twentieth of the gold of a sovereign, and a penny one two hundred and fortieth part of the gold of a sovereign. There is thus one important difference between the gold coin and the silver and copper coinage. The value of the former is measured by the commodity value of the metal, gold, of which it is made. It is *true money*, or the common commodity of exchange. The nominal value of the silver and copper coinage is not measured by the commodity value of the metal it contains, but by the value of a certain amount of gold. Silver and copper coins do not therefore exchange as commodities, but merely as *convenient tokens*. They are *token money*. Their value as a medium of exchange has commonly been a good deal more than the commodity value of the metal in them (the silver in a shilling was for a long time worth less than sixpence), and therefore the quantity of such coins that anybody can be compelled to take in payment of a debt is strictly limited by law.

When we are considering money we must put aside all thought of merely token money, and think of money in the real sense as a quantity of the standard money substance.

Then we have paper money, bank notes or Treasury notes. These are merely *substitutes* for

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metal coinage. If you receive payment of a debt it does not matter to you whether the payment be made in gold or in paper, provided you can get gold for your paper whenever you choose to demand it, and provided also other people are compelled to accept the paper from you when you pay your debts, just as though it were gold. We have these conditions in Bank of England notes and in Treasury notes. Each is made by law "legal tender," i.e. the debtor may tender payment in the form of these notes, and the creditor is compelled to accept them in settlement of the debt. Moreover, each can be exchanged for gold at the Bank of England.

So long, then, as a man can pay his debts or purchase goods by means of these notes, and can exchange the notes themselves for gold if he so desires, it evidently is a matter of indifference to him whether his pocket holds metal money or paper money.

There is, however, this very important difference between the gold coin and the paper note. The first has a value of its own, the commodity value of the gold it contains, and therefore it can readily be exchanged for goods in any country where gold is the recognized money substance, or indeed where gold has a commodity value. It needs no Government compulsion to make people accept gold in settlement of debts owing to them. They are generally only too glad to get it.

It is otherwise with paper money. People will not accept paper money unless they are certain that others will accept it from them in their turn, and there is no such certainty unless the law compels others to accept it. A Government can, however, only make

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laws for people in its own area. The British Government may print Treasury notes and compel the people in this country to accept them. It cannot compel people in France to accept them. The French may accept them if they like, and probably will if it suits them, since the notes can be sent back here and exchanged for gold or goods or used to pay debts they owe here. But this acceptance is voluntary. British notes do not circulate in France *as money*. Thus, paper money only circulates *as money* in its own country, and it has not, like gold, a commodity value of its own that will assure it a welcome in any country.

How are the people themselves interested in this? Does it matter to the wage-earner whether he receives his wage in gold or paper? What he wants is something that he can pay away as rent, something with which he can buy food and clothing. If gold and paper money both equally serve this purpose, it does not seem to matter which kind of money he receives. If, however, he can purchase more with a golden sovereign than he can with a paper Treasury note, then it becomes a matter of real concern to him. One question, therefore, he must ask himself is this: What is the effect on the purchasing power of his wages if paper money is used instead of gold?

In order that we may get to understand this clearly let us once again imagine the community to be small and self-contained, without foreign trade, producing everything for itself.

If our self-contained country uses gold as its money substance, it must produce the gold itself, as we assume it to have no sort of foreign trade. The

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gold it produces appears first as a commodity, and it possesses a commodity value. The gold coin has an intrinsic value of its own, and its value in exchange cannot differ much from the exchange value of the metal it contains. The Government must give the commodity value in some form or other for the uncoined gold, and must in due course exchange the coined gold for commodities or services. The coined gold may command somewhat more in exchange than the uncoined in view of the cost of coining, and to some extent perhaps in return for the convenience which coined gold possesses over the raw metal. Broadly speaking, however, the gold coin is a commodity, and its exchange value must depend upon its commodity value. The Government cannot arbitrarily determine what its value shall be compared with other goods. It may, of course, be found convenient and economical to use paper money to represent the actual gold; but this makes no difference so long as the paper money can be exchanged at will for gold.

A worker, under such conditions, who receives his wages in gold, or in what one may call "gold paper," receives something which has a definite value of its own, a value which cannot be juggled with so long as a pure gold coinage is maintained. Suppose the worker receives £2 a week. That wage represents a certain quantity of things which he can purchase, food, clothing, fuel, and so on. These things represent his *real* wages; and the £2 a week is a correct measure of his real wages. If the £2 is increased to £3, his real wages are increased by 50 per cent., so long as the commodity value of gold remains the same. It is therefore of advantage to the worker to

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have a genuine gold currency. It gives him a security as regards the amount of his *real* wages which he speedily loses to his great disadvantage and confusion when the currency or money ceases to have a full gold basis.

The chief objection to paper money in such a community as that we are considering is not that it does not make a convenient medium of exchange—it can serve that purpose as well as metal; but that, having no intrinsic exchange value of its own, its exchange value as currency or money is not based upon any unchangeable quality, but may vary within the widest limits according to the wisdom or the folly, the honesty or dishonesty, of the Government which issues it.

Let us see how this takes place.

All trade is at bottom an exchange of commodities for other commodities. If for this purpose we regard labour power as a commodity, employment becomes a kind of trade, labour power being exchanged for the commodities necessary to the labourer's existence. Money is merely a convenient medium by which these exchanges are effected. To bring these exchanges about a certain quantity of money is necessary—less if the exchanges take place quickly, more if they take place slowly. For example, a smaller quantity of money is needed if labour is paid by the day than if it is paid by the week—the same money may be received and paid away again in the first case several times during the week, while in the second case there must be sufficient money to pay the whole of the week's wages. Although it is impossible to say exactly how much money is necessary to carry on the

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economic life of the community, it can at least be said that a certain quantity is appropriate to any given state of society. With a gold currency this amount establishes itself. If the quantity is insufficient, the inconvenience quickly makes itself felt. If the quantity is excessive, the fact is soon perceived; and Governments will not willingly spend their resources in acquiring an unnecessary quantity of gold to be turned into coin.

The same automatic check on the quantity of currency exists even with paper money, provided such paper can be exchanged for gold at any time.

Suppose the amount of such *necessary* currency to be exactly determined, then in our self-contained community the wheels of its economic life would continue to revolve as before even though the gold were withdrawn and the whole currency consisted of Government paper. The amount of purchasing power in the hands of the people would remain unchanged, as would also the quantity of commodities available for purchase. Prices would therefore not be affected. The worker who received his £2 a week in Government notes would possess the same purchasing power as he had when he received his wages in gold. He could get the same commodities in exchange. In other words, his *real* wages would not be affected.

Governments being what they are, what chance is there that this state of things could continue, that this exact equilibrium of the currency could be maintained? The expenses of Government are normally defrayed by means of taxation, i.e. by taking from the individual citizens some of their purchasing power and using it for the needs of the State. Taxation, how-

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ever, is not a popular institution; and if the expenses of the Government could be met by printing more notes and paying them away to its creditors the temptation to do so would be at times irresistible. If that were done, the purchasing power in the hands of the citizens remains as before since it has not been reduced by taxation, and there is in addition the new purchasing power in the shape of additional notes put into circulation by the Government. On the other hand, the quantity of commodities remains as before. The inevitable result is that either the additional purchasing power could not be used at all, since there is no corresponding addition to the supply of goods to be purchased, or—as would happen under a competitive system—the increased purchasing power would enter into the competition to buy goods, and prices would rise accordingly.

Thus an increase of currency in circulation—or, in other words, an increase in the total purchasing power of the people—without a corresponding increase in the goods to be purchased means a general rise in prices. This result we may regard as inevitable under present conditions where a Government has the power to issue a paper currency not convertible into gold at the will of the individual.

Remembering that we are considering a self-contained community, it may be said that a rise in prices due to an issue of paper would make no difference to the worker if his wage in paper were increased to a similar extent. If, for example, the price of bread were increased in this way from 6d. to 1s., it would be a matter of indifference to the worker if his wages went up from £2 to £4. In other words, his *real*

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wages would then remain the same; and it is *real* wages that the worker is interested in. The question that concerns the worker is therefore this: *Would* his nominal wages go up in the same way as prices if the Government issued this excessive quantity of paper money unbacked by gold? The answer is No.

Wages are measured in money. The worker receives £2 a week in currency—not in goods; and, however the price of commodities may rise, there is no mechanism in our competitive system to make the *money wage* increase in proportion to the price the worker has to pay for the things he needs. His nominal wage remains as before until he can bring to bear a sufficiently powerful demand for an increase. Until this takes place, his *real* wage—that is, his wage measured in goods—is less than before, since the issue of an excessive paper currency has caused a general rise in prices. On the other hand, producers of commodities, as a body, make larger profits than before, since they pay to the workers a smaller quantity of goods in the shape of wages. Thus we reach the well-recognized fact that an excessive issue of paper currency (one of the various forms of what is called “inflation”) lowers real wages, increases general prices, and brings greater profits to the manufacturer and trader. It is sufficient for our present purpose to note this, and to remember that, under existing conditions, the worker is best served by a gold basis of money, or, indeed, any form of money which has an intrinsic commodity value of its own.

What we find true in the case of the self-contained community is equally true in the case of a country possessing an export and import trade.

Money—Real Wages

In foreign trade, as in home trade, commodities are normally exchanged for commodities, and some form of *international money* is necessary. There is no such thing at present as an international coinage and the common money substance (generally gold) measured by weight takes its place. There is, however, in international trade nothing corresponding to the retail trade carried on within the country. In the case of retail trade nearly every separate transaction (certainly with the wage-earning class) is an exchange of money for goods. Such a method could evidently not be adopted in foreign trade. The merchant in England who buys goods in New York does not, and could not, send gold to pay for each block of goods he purchased. Instead of that, the debts owing between two countries are exchanged as far as possible. Thus if merchant No. 1 in London owes merchant No. 2 in New York £1,000 (or the corresponding number of dollars), and No. 3 in New York owes No. 4 in London £1,000, the *international* debts are squared if No. 2 in New York transfers his claim to No. 4 in London, and No. 4 transfers his to No. 2. No. 1 in London then owes No. 4 in London £1,000, and No. 3 in New York owes No. 2 in New York £1,000. These transfers are effected by men, exchange brokers, etc., whose special business it is. But international debts do not balance each other so exactly, and the difference has from time to time to be made up by sending gold from one country to another. This gold is essentially a commodity which must be produced or acquired like any other commodity. If owing to an excessive issue of paper currency general prices have risen—prices measured in

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such paper currency—gold *as a metal* also rises in price. Goods purchased from abroad, whether in exchange for goods produced at home or in exchange for gold, therefore suffer the same increase in price to the home purchaser as home-produced goods.

We need not follow here the more intricate features of foreign trade. It is sufficient for the present to note that an excessive issue of paper currency increases the price of imported goods as well as of those made at home; and that, in either case, the wage-earner suffers a loss in his *real* wages, until at least he can enforce an increase in his wage through the action of his trade union or in any other way that is open to him.

The summary of this brief discussion of money is this: the wage-earner is interested in his *real* wages—not his nominal wages; and under the existing system any departure from a gold standard of money in the direction of paper money must almost inevitably result in a reduction of his *real* wages.

CHAPTER XII

INTRODUCTION TO THE PRACTICAL PROBLEM

Social History and Economics—Importance to the Practical Reformer—Facts must be Faced—Half-truths Useless—Sincerity and Frankness alone can win Confidence—Idealism: must be Guided by a Knowledge of the Real—Intellectual Honesty Necessary—Possible Limitations of Progress.

THE study of social history and of economic theory may be of interest in itself to the philosopher. To the worker, however, whose leisure time is limited and whose eyes are fixed upon facts, such study is of value only so far as it assists him in solving the practical problems of the time.

It is of the utmost importance that the worker should recognize that a real knowledge of the past, not merely of the superficial facts but also of the unseen forces that have continually shaped and re-shaped human societies, is essential if the pressing problems of the moment are to be approached with any hope of success. *A stable human society cannot be re-created at a word, even though that word is placed upon the Statute book.* The infinite diversity of character among individuals, the enormous part which self-interest plays in the active affairs of life, are facts which the would-be reformer must take into account. No system based upon an assumed uniformity of character, or in which community interest

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is relied upon as the dominant social force, can exist in face of the *real* human nature of our time; nor can it ever exist until self-interest has fallen to the second place among the active qualities of man as a social being.

Much, however, there is that we can do to limit the opportunities of greed, to weaken the imperative demand of necessity, and to modify the social heritage which is so important a factor in forming the active character of the citizen. To do this we need to know all there is to know about the past, about men and things, about the needs and desires of the one and the power to satisfy of the other.

A knowledge of social history and of economic theory is necessary. But it must be a knowledge *full and fearless*. Half truths are worse than useless. The timid suppressions of so many economists and historians, the half-expressed assumption that the main features of our modern civilization are rooted in nature itself, and that they must be accepted as permanent facts in civilized life, may soothe those who desire no change; but they merely disgust the growing number which seeks reform with sincerity and determination, and tempt these active spirits to turn aside from the teachings of economy and to trust to their own inexperienced and unguided impulses.

The best service the economist can render is to set out the truths of human life frankly, fearlessly, without reservation, unmoved by the fact that many of these things must be unpalatable to some, and some things unpalatable to all. He will neither receive nor deserve the confidence of the mass of the workers (and such confidence is eminently desirable) unless they

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believe him to be single-minded and sincere in expounding the truth as he sees it, whatever its inferences may be. If, for example, he believes that private property in land represents a one-time robbery of the community—let him say so. Concealment or suppression does not alter the fact; and a frank recognition of what took place in the past will give him a claim to be heard when he points to the fact that the treatment of land for many centuries as private property has created conditions too complex to be met by the mere cry of robbery.

If he believes that the ownership of the land by a small section of the community gives that section a power over their fellow citizens which no mere human beings should possess—let him say so.

He may believe that the private ownership of capital leads to the economic slavery of the wage-earner; and, on the other hand, that in view of the selfishness which dominates all classes any weakening of the appeal to personal self-interest would bring down the existing economic structure about our heads.

Admitting all the evils that have been alleged of our present system, he may say that the roots of evil are ineradicable, since they spring from the fundamental qualities of all organic life.

The mere soundness of his appreciation of the truth is less important than his *unimpeachable sincerity*. Each student, if he is wise, will draw his knowledge from many sources. The main facts may perhaps find wide acceptance; but the interpretation of the facts, the inferences to be drawn from them, will be coloured by the cast of mind which deals with

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them. Sincerity, however, may be common to all; and it alone can secure a patient hearing for those things which violate our prejudices and threaten to overthrow our pre-formed judgments of men and things. This patient hearing of the other side, the spirit of mutual tolerance, is both the most difficult and the most important of the tasks which the worker must face.

Idealism is the re-creative force of human societies. The acute consciousness of evils calling for redress, the craving for a state in which such evils no longer exist, and the belief that such a state can be achieved by human effort, and some conception of the form such a state might take—such idealism is an active impulse, insistent and impatient, and is necessary if the apathy and inertia of the mass of mankind are to be overcome; but it is like fire—the most beneficent servant of man if controlled by reason and knowledge, but, on occasion, his most destructive master. The ideal must be wedded to the real if it is to be fruitful of good. Divorced from the real, it may easily reduce human society to chaos, but it can do little or nothing to re-create.

One, perhaps the most important, question the idealist reformer must ask himself is this: Is it necessarily *certain* that a *perfect* human society *can exist at all*? It is easy enough to tabulate the evils which mark society as we know it, and to assume that all we have to do is to remove these evils individually and our millennium is attained. But are we so sure that these evils *can* be removed? When we remember the sort of being man is, and that society is an aggregate of such beings living together in an environment,

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created in part by themselves but determined in part by uncontrolled and uncontrollable nature, we must begin to doubt the easy attainment, perhaps even the possibility, of Utopia.

This must be to many an unpalatable and discouraging statement. It clouds the rosy dreams of the enthusiast, and offers the prospect of a slow and toilsome progress in place of swift and airy flight. But difficulties are not evaded by being disregarded; and *the worker who rightly demands intellectual honesty from his teachers owes equal honesty to his fellows*. He is not honest unless he is prepared to face the facts, to recognize and to admit the existence of the obstacles which must be met and overcome, and to deal with those obstacles frankly and faithfully in his proposals to reform or reconstruct the social system in which he finds so much of ill.

This is the acid test; and he who fails in it may lead his fellows into the hunger and thirst of the wilderness, but will never see the Promised Land. *The world of reality imposes limitations to the attainment of human wishes*. It is our business to learn what those limitations are, and to distinguish, reluctantly perhaps but none the less remorselessly, between the desirable and the practicable.

For this reason, whatever our final conclusion may be, we must at least contemplate the possibility that the path of progress may be in the modification of existing institutions rather than in their complete reversal, in checking the evil effects of unrestrained self-interest rather than in endeavouring hopelessly to eradicate that deep-seated passion, to reform rather than to re-create society, to establish a line of advance

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rather than attempt to reach at a bound the end of the journey.

The foregoing chapters have set out in broad outline the main features of our social and industrial development; and they have indicated as well as the brief space permits the nature and the causes of certain evil aspects of Western civilization.

The following pages will be devoted to a short examination of certain of the more pressing of our modern problems in the light of what we have already discussed. No attempt will be made to do more than suggest lines of thought, to indicate some of the necessary steps and some of the limitations which the world of reality imposes. Whether the views expressed are accepted or rejected is of little moment. To some they may appear adventurous, to others inadequate. They will have served their purpose if they bring home to the worker the fact that questions of social reorganization are enormously complex, and that it behoves him to explore each line of advance before adopting this or that particular policy or programme as his political or industrial creed.

CHAPTER XIII

THE PRACTICAL PROBLEM OF THE LAND

The Land—Community-created Values—Consequences of Private Ownership—Fundamental Principles of a Proper Land System—Unimproved Value of Land—Difficulty of Estimating it—Land should not be taken without "Compensation"—The Unearned Increment—How it might be Transferred to the State—Movement in Capital Values of Land—Retrospective and Non-retrospective Methods of Dealing with "Unearned Increment"—Their Respective Yields—Land Nationalization the only Effective Method of Dealing with the "Unearned Increment."

THE problem of the land is in some respects the most vital of all our social economic questions. It is of great importance in its relation to the merely national prosperity of the people; although the wide ramifications of international trade and the dominant part that Capital plays therein diminish the otherwise supreme importance of the land. But in its relation to national well-being as distinct from national wealth it stands without a rival.

In considering the economic question of land we found that :

1. Its value, apart from the labour and capital spent upon it by individuals, was entirely created by the community.
2. That private ownership of land represented an original robbery of this community-created value,

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and represents at the present moment a like robbery of the additional values still being created.

3. That the personal interests of the private owner were often in conflict with the interests of the State, leading to an unsocial and uneconomic use of the land, to overcrowding of the population both in town and country.
4. That the private owner possessed a power over the lives of many of his fellow citizens, dangerous enough in any state of society, but liable to intolerable abuse in any society in which the dominant motive is self-interest.
5. That, as society progresses industrially, the use of land solely for profit or personal enjoyment drives the people from the country and crowds them in ever-growing numbers in the towns.

It is obvious enough that the present system of land ownership involves evils which should be removed. It is, however, not sufficient to say that, since private ownership is associated with these evils, therefore private ownership must cease and community ownership take its place. We shall probably come to that conclusion; but the actual policy we may adopt must depend, not merely negatively upon the evils of existing private ownership, but positively upon the needs of the State and the system of land use which is best calculated to meet those needs.

We therefore lay down certain fundamental principles in regard to the land which the "land system" should satisfy; and in seeking to modify or reverse the present system in the light of those principles it will be incumbent upon us, in choosing a method of

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change, to note the beneficial or the injurious effect of that method itself on other phases of the national life.

The main principles which we suggest should be regarded as axiomatic are :

1. All values created by the community should belong to the community.
2. Land is a vital necessity of human life; and the appropriation of a vital necessity by a section of a community is inconsistent with the free development of the whole.
3. The use of land should be determined in the best interests of the whole of the community.
4. Private ownership of land is a human institution which can only be justified according to the degree in which it serves the best interests of the whole community.

We have to consider how these principles may be made effective as regards the land of this country, and how the change may be brought about with the minimum injury either to sections of the community or to other sides of the national life.

The first principle set out above—*all values created by the community should belong to the community*—is not likely to be *directly* challenged in any quarter. It may perhaps be urged that, however true it may be in the abstract, it is useless as a practical principle, since all exchange values imply a community of a sort between whose members the exchange takes place, and that, as no exchange value can exist without a community, *all* values may be said to be created by the community. There is an element of truth in this which may call for consideration when we deal with the question of Capital and Labour. But the

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question of land is a thing apart. Its value not only depends upon the existence of a community, but that value is created and increased as a consequence of the existence and the growth of the community, quite independent of the expenditure of Capital or Labour thereon.

What is the value of land so created by, or consequent on, the existence of the community? It is obviously the value of the land in its present condition, less so much of that present value as has been created by the expenditure of Capital or Labour.

To this "raw" or "unimproved" value of land the community has at least an *abstract* right; and if that value could be taken over by the State and applied to the common benefit without injurious reactions in other directions, it is clearly just that it should be so taken and used in the general interest of the whole.

The first difficulty that confronts us is that nearly all the land has been "improved" by the application of Capital or Labour, or both; and, although its present exchange value could be ascertained, that value is a composite value which must be split up by the elimination of that part of it which is due to the application of Capital or Labour. This splitting up is a problem which, if not insuperable, is at least of great difficulty; and it could only in practice be dealt with in a rough and ready way—not necessarily objectionable on that account, if care be taken that the error in the estimate is in favour of the individual.

It has been suggested that the bulk of the agricultural land of this country does not yield a rent which gives more than a very small return on the capital

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spent upon it—that, in short, the “raw” or prairie value of most agricultural land here is practically nothing. Without accepting this somewhat extreme view—we are only concerned with the capital expended to the extent to which it is still represented by a value—it may be assumed that the “unimproved” value of agricultural land is a relatively small part of its existing “composite” value, impossible to estimate and of little real importance in the purely financial sense.

The same difficulty of valuation exists in the case of town land, although here the “raw” value of the site is an important, a great and a growing consideration. It would certainly be financially “worth while” to “resume” this community-created value. We are, however, immediately faced with the fact that a very large proportion of this “land” has been acquired by purchase by the present owners, and that those who originally held possession of these community-created values without sacrifice on their own part have escaped with their unearned gains and cannot now be reached.

There are some, embittered perhaps by the history of the private appropriation of land and its social effects in this country, who assert that the owner by purchase is merely in the position of a receiver, and that the “receiver” deserves no more consideration than the thief. Such a suggestion may be taken as a measure of the intensity of their feelings on this question; but it is essentially unjust. The community has *lost* these values; and the loss should not be placed upon the shoulders of those who have used their capital in the purchase of land, while those who

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have used their capital in other ways escape. Not only so; the practical adoption of a suggestion to appropriate for the State all land values, whether purchased or not, would merely create a wide resistance to any change at all, and would either postpone reform indefinitely or make its achievement possible only through a struggle which might well reduce the community to ruin.

Let us then assume that where ownership of land is the result of purchase, i.e. where the individual has acquired his "rights" in the land by the expenditure of capital which he was perfectly free to invest in other ways, that ownership will be recognized by the State.

The field of community-created values already existing which the State might take over without depriving any man of the capital he has himself expended is thus considerably narrowed. In this limited field the question of the resumption of community-created values—or to use the popular expression *unearned increment*—may be approached in two ways:

1. The whole of the present value in excess of the actual capital expended by an owner may be regarded as equitably belonging to the State, although the purchase may have been made many years ago (the *retrospective* method).
2. That as a matter of practical policy the State should recognize ownership of the whole of the present value, including any unpurchased increment therein, and declare its right to any values created by the community in the future (the *non-retrospective* method).

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So long as the interference of the State with the system of private ownership of land is confined to a claim to the "unearned increment," we must recognize the practical fact that the *whole* of such increment could not be taken and that the State must be content with a percentage only. So long as the private owner retains the power to determine the *use* to which the land should be put, and so long as he exercises his power (like every other section of the community) under the dominant impulse of self-interest, he will not take either the trouble or the risk of developing or improving the use of his land unless a substantial share of the value so created (beyond that of an ordinary commercial profit on his capital) is left in his hands. To leave to him the power of the private owner and to take the whole of the "unearned increment" is to leave him in control but to deprive him of all personal inducement to exercise that control in the most efficient way. *In such circumstances the State can only safely take a percentage of the community-created value. If the whole of the community-created value is to be taken by the State for community purposes, the State must take absolute control of the land also.*

We may form a general idea of the financial side of this question by noting the movement which has taken place in the capital value of land during recent years. This may be shown roughly as follows:

(1) *Agricultural land*.—For the purpose of this estimate we take the gross annual value of land and farm buildings as it appears in successive quinquennial income tax assessments. This annual value is then capitalized at twenty years' purchase to give the

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capital value of the land and buildings. The cost of the buildings is then assumed to be £5 per acre. Deducting this from the capital values previously obtained, we get for the value of the land from the year 1870 to the year 1910 (the last year of complete re-valuation) :

<i>Year</i>	<i>Capital value of land in millions of £'s</i>	<i>Increase in five years in millions of £'s</i>	<i>Decrease in five years in millions of £'s</i>
1870	1122	—	—
1875	1178	56	—
1880	1230	52	—
1885	1140	—	90
1890	1004	—	136
1895	956	—	48
1900	892	—	64
1905	875	—	17
1910	870	—	5

This estimate is doubtless open to considerable modification, particularly as regards the amount expended on buildings and improvements. It indicates, however, clearly enough the general movement of agricultural land values. It may be urged that agricultural land possesses a sentimental value apart from its value as an income-producing investment. This element in the market price is certain to diminish as the ownership becomes more liable to interference from the State.

The war has upset human calculation as to the movement in land values as it has upset so many other anticipations. The very heavy prices frequently paid for agricultural land during the past two or three years

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suggest an extraordinary increase in the capital value of the land of the country. Much of this increased value is likely to disappear when the abnormal features of the present situation vanish. Some of it will undoubtedly remain; and the future is likely to witness a new upward movement from the general world causes which had already arrested the decline in agricultural values before the war.

(2) *Urban land*.—The annual value of land and buildings for income tax purposes is taken and capitalized at twenty years' purchase. Of dwelling-houses the great majority lie between the rental value of £20 and £40, and the average capital outlay on the land in such cases is taken at £300. Of other buildings the average rental is about £15, and the average capital outlay is assumed to be £100.

From this basis we get—

<i>Year</i>	<i>Capital value of land in millions of £'s</i>	<i>Increase in five years in millions of £'s</i>	<i>Decrease in five years in millions of £'s</i>
1870	1100	—	—
1875	1292	192	—
1880	1580	288	—
1885	1780	200	—
1890	1893	113	—
1895	2070	177	—
1900	2388	318	—
1905	2830	442	—
1910	3110	280	—

a yearly increase of, say, £50,000,000.

Here, again, the figures are offered merely as a rough approximation, and as showing in broad outline the general movement that has taken place.

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(3) The values for the metropolis may be estimated separately. Taking the average cost of houses as £400, and of premises other than houses as £300, the capital value of the land in the metropolis is about £700,000,000, and the yearly unearned increment in land values about £12,000,000.

The right of the State to take part of the "unearned increment" has been recognized by Parliament, and was included in the Finance Act of 1909. The method adopted was the "non-retrospective." The "original" value (i.e. the starting value from which increment was to be measured) was the value as on April 30, 1909. The unearned increment was to be determined on such occasions as the sale of property or valuation at death. A ten per cent. increase was allowed tax free, and one-fifth of the balance of the increase was the amount to be paid to the State.

Inevitably under such a scheme the merely financial results could be of little value; and the Finance Act of 1920 repeals the whole thing.

Bearing in mind that we are for the moment considering the first principle set out on page 155, i.e. the purely financial result if the State asserts its equitable claim to the values created by the community, we have these results:

(1) *Non-retrospective*.—The future "unearned increment" will amount to probably £50,000,000 a year. [Having regard to post-war conditions this figure is possibly too small.] Assuming that the State could take one-half of this without seriously discouraging the effective use of land, we have a capital sum falling into the hands of the community equal to £25,000,000 a year; and if this matures in the shape

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of annual income, we have an additional income of £1,000,000 each year in the national exchequer—a figure that would in the course of time represent a large yearly sum available for the common expenditure of the State.

(2) *Retrospective*.—The “unearned increment” in the hands of the present owners of land is represented by the difference between the current value of their interest and the amount of capital actually expended by them. Where the land has been purchased by the present owner within the past fifty years there is little difficulty in measuring this amount, and to this the State has an equitable right. In many cases, particularly in the case of some of the largest estates, the property has been handed down without purchase for many generations. The actual cost in such cases was probably very trivial indeed, and the bulk of the present value is unearned in the limited sense used here. It would inflict a real hardship if the measure of excess over actual cost were adopted in such cases; and it is suggested that where land has not changed hands by purchase within the past fifty years the “original” value shall be taken as one-half the present value, or the actual cost when last acquired by purchase at the option of the owner. The total unearned increment, estimated on these lines, may amount to as much as £1,500,000,000. Taking the lower figure of £1,200,000,000, and assuming that the State could take one-half of this, it would start with an immediate capital value of £600,000,000, emerging in the shape of an annual income of, say, £30,000,000, increased in the future by the proceeds of the non-retrospective method.

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If it is admitted that the community is entitled to use for its own purposes the values it has itself created, it is impossible to deny the abstract justice of this retrospective method, since it takes from no man a single penny of the capital he has himself invested, and indeed leaves in private hands a large proportion of the values created by the State itself. But, as a matter of practical politics, it would be extremely difficult to pass and carry out such a measure *if other fundamental aspects of our social and industrial life remain unchanged*. In other words, this *limited* measure could not be carried into effect. The State must either attempt *much less* or *much more*.

(3) *Land nationalization*.—If the State becomes the owner of all the land, it automatically comes into possession of the whole (not merely one-half) of the increment in values arising after the purchase if the land is purchased at its present value, and to a large proportion of the existing unearned increment if the purchase price takes account of the fact that a considerable part of the present value in private hands has been created by the community and has not been paid for by any individual.

We need not discuss this question of purchase price further at this point. We have, however, some justification for saying that by land nationalization alone can the question of the unearned increment be fully and effectively dealt with.

CHAPTER XIV

THE PRACTICAL PROBLEM OF THE LAND (*continued*)

Vital Importance of Land—He who owns the Land owns the People—The Use of Land must be Under Community Control—Conditions Necessary to the Best Use of Land : Security of Tenure : Adequate Capital or Credit—Transport Facilities : Distribution of Produce—Smallholdings—Scientific Agriculture—Conditions of Labour—Urban Land—Minerals—Objections to Public Ownership of Land Considered—The Official—Land Purchase.

THE second principle set out on p. 155 (*Land is a vital necessity of human life; and the appropriation of a vital necessity by a section of a community is inconsistent with the free development of the whole*) is a truism which hardly calls for further comment. It is obvious enough that if a single individual held a complete monopoly of something which was absolutely necessary to human life, and possessed the necessary power to maintain that monopoly, the human race would be a race of slaves, holding life itself at the mere caprice of their owner, and subject to his will in all things. Such a state of things is not humanly possible under present conditions; but something of that evil must remain when the essential thing is limited in quantity, and when the monopoly is held by a small section of the community animated by the common human instinct of self-interest.

In a great but sparsely peopled country the private

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ownership of land by a section is relatively weak in its power to control the lives of the rest of the community. But in a densely populated area that power becomes a very real thing. It may be used with no consciously evil intent; but if the conception of self-interest held by the owning class differs from the reality of community interest, the results of such private ownership may be enormously injurious to the State.

Because land is so vital a necessity, and its use in the interests of the individual owner does so often conflict with the well-being of the whole community, we assert the third principle on p. 155: *The use of land should be determined in the best interests of the whole community.*

If that principle is accepted, it is but a short step to the question: Can such use be secured if the control of the land is left in the hands of individual owners? In theory, at least, the answer is No; since self-interest cannot be wholly removed from among the dominant motives of a class possessing uncontrolled power; and self-interest is often very much at variance with the common interest. That *best use* of land can only be secured (let us say in theory, so that we may reserve any practical difficulties) if the use of the land is under the absolute control of the community.

The ownership of land consists merely of two things: the power to appropriate the "unearned increment" arising from it, and the power to determine the use to which it shall be put. It has already been urged that the community is entitled to the values created by the community; and it is now suggested

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that the use of the land must be under the absolute control of the community. These are the two particular incidents of ownership, and their transfer to the community means, in fact, the State ownership of the land, whatever outward form that ownership may take.

In comparing the relative merits of public and private ownership of land it is necessary to consider what constitutes the *best use* of land in the sense in which that term has been used. Briefly, the term implies :

- (1) The maximum production of things necessary to the whole community.
- (2) The contentment and prosperity of those who are working the land.
- (3) The promotion of the healthy development of the whole of the people.

Without going into this question in detail, it may be said that certain outstanding conditions must be fulfilled.

Security of tenure for the tenant. In the case of agricultural land the tenant must be able to look forward to an undisturbed occupancy. By no other means can the best "service" of the occupier be obtained. Freed from the possibility of eviction, secure in the enjoyment of the fruits of his own energy, the farmer will be under an inducement to put heart and brain into the work of production which, in a vast number of cases at least, does not exist for him at present.

Adequate capital for full production. The proper cultivation of land demands nowadays ample capital. It can hardly be denied that a very great proportion

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of British farmers, both of large and small holdings, are handicapped by want of capital or credit. Even where he possesses the necessary means, a farmer may well hesitate to sink his capital in the land so long as he is liable to lose it either by increased rent or by inadequate compensation on disturbance. Adequate farming by the farmer's own capital is practically impossible except in relatively rare cases. The farming class as a whole does not possess it; nor is that large new class, whom we should wish to see on the land, so fortunately situated. Agriculture, from its very nature, demands an expenditure of capital which varies within wide limits during the course of the year's operations, and an amount of capital sufficient to meet the maximum needs of the year would be largely in excess of what was required at other times. Easy access to credit, varying as circumstances demand, is essential to successful husbandry. The present banking organizations are ill adapted to afford this. Some other system, either in the form of State or municipal banks or of co-operative credit societies, is needed at the present time, and will be still more essential when the land of this country is more fully and more productively employed.

Transport facilities. These must be greatly improved if production is to be stimulated throughout the country. For this purpose not only must the State have direct access to any land needed for railways (if the additional transport takes that form), but the increase in value of the land resulting from the outlay on improved transport must accrue to the State, by whom alone the outlay can be made.

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Distribution of produce. The machinery of distribution through which agricultural produce reaches the consumer is open to great improvement. No completely efficient organization is possible under the very casual methods existing to-day. Such an organization to reach its highest possibilities should be nation-wide, and could be achieved more easily if one authority (the State) were in touch with all producers, than under a system in which no such common link exists.

Smallholdings. A vast amount of necessary produce can only be obtained from smallholdings, which lend themselves more readily to intensive cultivation than do farms of considerable size. The provision of land in such situations and under such conditions of rent, capital, co-operative plant, and distribution, necessitates State action. Private ownership has, so far at least, shown itself a serious obstacle to this important development of the national life.

Scientific agriculture. Just as technical laboratories are necessary in the industrial world, so "experimental" farms are necessary in the world of agriculture. These should be undertaken by the State, and the results in all branches of husbandry, large and small, be placed at the free service of all those employed on the land.

Conditions of labour. Certain minimum conditions of labour, assuring to the labourer an adequate standard of life and an opportunity of himself becoming a cultivator of the soil, must be secured; and such uniform conditions can only be established by the State itself. It is reasonably certain that the improvement in the condition of the wage labourer

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will react favourably upon the tenant farmer. Indeed, under a system of secure tenancy and adequate capital a high standard of living for the wage labourer would be of direct advantage to the tenant farmer. The tenant farmer is, however, entitled to due consideration in this matter; and such consideration could be given more readily and more uniformly where rents are paid to one body and not to a multiplicity of individual owners.

Urban land. No physically and mentally healthy town population can exist unless the growth and development of the town are directed with a main eye to the well-being of the people. In this case, more even than in the case of agricultural land, the interest of the private owner and the interest of the community are widely divergent. It is here that the "unearned increment" most quickly accumulates; and, broadly speaking, the greater the congestion of people, whether for the purpose of residence or of business, the greater is the unearned increment which flows into the pockets of the owners of the land. The personal interest of the landowner is purely economic; and it leads directly to "overcrowding" and all the social evils which result from it. In no way can this state of things be checked unless the "use" of the land is under the absolute control of a power to whom economic interest is not the dominant motive. It is conceivable that a benevolent and public-spirited landowner who owned *the whole* of the land in and about a town might insist upon a proper social use of the land and still secure for himself much of, if not all, the economic gain which accrues to the class at present. But in no case is the whole of the land in

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one ownership; and, in the world of practical reality, we cannot assume in the individual so placed a public spirit which overrides his own economic interests. Attempts to mitigate the evils resulting from private ownership by sanitary regulations, laws against overcrowding, demolition of slum properties, public ownership of town transport, however well meant, have so far failed to more than touch the fringe of this social evil. It is difficult to believe that the evil can be eradicated unless the economic inducement is taken from the private owner, and unless the use of the land, that is the development of the town, is placed in the absolute control of a public authority. As in the case of agricultural land, the power to extract the "unearned increment" and the power to direct the use to which the land shall be put are the two incidents of ownership; and, if these powers are transferred to the community, we have in fact public ownership, whatever may be the forms in which the transfer is effected.

Mineral and other natural resources. These are embraced in the general term Land; and all the reasons which support the case for the public ownership of land apply with scarcely diminished force to these also. In a country which is mainly agricultural and commercial the control of native minerals is of relatively small importance. But in the modern industrial states, particularly in England, coal and iron lie at the very foundation of its economic life. It is not too much to say that he who controls these has a strangle-hold on the community. No doubt it is very largely true that so long as the minerals are owned by a considerable number of people, the play

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of competition, both within the country and abroad, tends to limit the power of exploitation which ownership of these necessities confers. The economic or the purely money objection to private ownership under such circumstances is probably not very great. The concentration of these resources in few hands, however, and the steady decay of competition lend to this objection growing force.

The term "Land" includes the mineral in its native or unworked state only. The industrial organization which is built upon it falls under the general problem of Capital, with which for the moment we are not concerned. So far as the unworked mineral is concerned the question has passed out of the realm of abstract theory into the sphere of practical politics. It is widely admitted that the control of the mineral resources of the country should be in the hands of the State, and the proposal of the present Government (1920) to purchase the coal of the country gives the seal to this question.

The relative merits of public and private ownership of "land" (ignoring for the moment the practical objections that may be urged against the former) can be measured by a consideration of the conditions set out in the foregoing pages. If those conditions could be fulfilled under a system of private ownership there would be little substance in the claim that the system should be changed. If they could be in the main fulfilled under such a system we might still hesitate to urge that a change should be made. But, although some of the conditions suggested might in a measure be secured under private ownership (e.g. by the establishment of tribunals to determine the limits

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within which private ownership might be free to act both as regards rents and use), it is impossible to deny that the social ills inevitably incidental to private ownership can only be ameliorated by such measures, that those ills diminish as the power of private ownership diminishes, and that they cannot be wholly eradicated until private ownership with its dominant motive of self-interest is replaced by public ownership with its dominant motive the well-being of the whole community.

Every proposal affecting the interests of any section of the population or recommending a change in any established institution is met in its earlier stages by mainly rhetorical objections, appeals to feeling and to the innate "conservatism" of the human being. In its later stages, however, when the proposal must itself take definite and practical shape, rhetorical objections lose their force, and its opponents must meet it with equally definite and practical arguments. The question of the public ownership of "land" has reached this later phase. It is probable that many who object to the proposal would admit that it is sound enough in theory, but that it is not a practical proposition, because (1) the system would not work efficiently if those to whom it is entrusted lack the stimulus of self-interest, and (2) that purchase on "just" terms would involve a financial operation of impossible magnitude and with grave reactions on the rest of the social economy.

These are points of serious weight, and they should be considered on their merits and (as far as is humanly possible) free from the bias of pre-formed judgments.

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As regards the human factor, the duties of the public official would be mainly concerned with :

1. The periodical revision of rents.
2. Fixing compensation for improvements.
3. Advance of capital by the State where necessary.
4. Selection of tenants when land becomes vacant.
5. Taking land from existing farms for small-holdings or other public purposes.
6. Possible remission of rent under special circumstances.

There is little reason here to make a special call on the self-interest of the official. If his duty was to extract the utmost possible rent, to pay the smallest possible compensation, to withhold an advance of capital wherever possible, the public official would probably achieve less than a private owner seeking a similar end. The private owner himself is not animated by so extreme a view of his "self-interest," and it would be an evil thing if the State as owner put itself in the position of a private owner seeking the utmost pecuniary benefit for himself. The State would be less an owner than a trustee, seeking to reconcile impartially the respective claims of the community as a whole and of the individual members of the community who were devoting their labour and capital to the land.

The qualities of an official administering such a trust and seeking settlements just to both sides are not necessarily those of the business man whose interest is one-sided and for whom efficiency is largely measured by success in advancing the interests of one side against those of the other. For the State to

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strain its powers as owner, to countenance a system of competitive rents, to take advantage of the economic immobility of a tenant, would be not only a misconception of its duty, but a complete negation of all that public ownership of land is supposed to stand for.

Is there any reason to think that public officials as a body would be slack, would seek the line of least resistance and favour the tenant at the expense of the State? To this a negative answer may fairly be given. Provided the object is to fix a fair rent measured by the productivity of the land under average conditions, and not weighted against a tenant of exceptional ability and energy, there should be little difficulty in fixing and varying rents according to conditions of general application. There is small room here for favouritism, and the organization of the service could be made adequate to check any tendency of that kind.

There is a psychological condition of efficient work which should be considered. Interest in the work is necessary if the work is to be well done. Routine work, the endless repetition of standardized details, without obvious connexion with the real productive or creative work for which the organization exists, dulls the interest of the worker and fails to fit him for duties of real responsibility. On the other hand, endow the worker with responsibility, let him feel that his post is one of trust, give room for the exercise of his independent judgment. Give him these, combined with decent conditions of existence, and you need not the continual appeal to "self-interest" to secure from him honourable and efficient performance of the duties entrusted to him, and a judicial attitude

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of mind peculiarly necessary in most branches of the State service.

If it be urged that the State does not possess the necessary supply of trained officials, the answer is that large numbers of trained men, surveyors, land agents, etc., are at present engaged in connexion with the ownership of land. These would in great measure be displaced if the State became the sole landowner, and from their ranks could be drawn the necessary number of capable and experienced officials.

We should further put aside the conception of a vast Land Department in London. The nearer the worker is to his work the better. The general administration of public land is best conducted locally, probably through the organization of the County Councils, combined with the necessary judicial tribunals, with such general co-ordination in London as the great financial interests of the State may require.

After making every allowance for the money standard of values that prevails so largely in the Western world to-day, it may be urged with assurance that the work involved in administering a system of public ownership of land would be efficiently performed, and that no adequate case can be made against such a system on that ground.

The problem of the finance of State purchase apart from that of management is a practicable matter in spite of the great sums involved. The main elements in that problem are :

1. The recording of the names of the "private owners" whose interests would fall to be purchased by the State.

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2. The principles which should govern the method of valuation of those interests.

3. The deductions (if any) which should be made from the present value of those interests on account of the "unearned increment" contained therein, or on account of any taxation or redistribution of taxation which might be considered justly applicable under a system of private ownership of land.

4. The method in which the purchase price should be paid.

As regards the first condition a complete record of the actual land already exists. No complete information is, however, in the possession of any State department as to the existing owners, the character of their titles, and the owners of charges upon or interests in the various properties. Every person claiming to possess such title or interest should therefore be required to lodge such claim. In order to avoid error or injustice the register of such claims should be kept open for ten years, during which period no absolute title should be admitted. Claims not disputed during that period, or, in the case of disputes, duly adjudicated upon, should be declared absolute. The delay of ten years need not interfere with the general operation of purchase in any way. It only means that for ten years no capital payment should be made by the State on account of purchase money, the State paying only "annual income" to the persons at present receiving rents.

The second and third of the conditions set out above will probably lead to much difference of opinion. Some may say that the purchase price should be based upon the existing rateable value,

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others upon the values which have been adopted for taxation purposes, others again upon the existing market value, others upon the market value as an investment excluding amenity value, while yet others may urge that the "unearned increment" should be wholly or partly excluded from the purchase. The alternatives would appear to be: (1) actual current market value based upon a "fair" rental value, or (2) this value, less the whole or part of the "unearned increment" over and above the actual cost of the property to the present owner.

The amounts involved, if the purchase takes place at the present time, may be put approximately at (1) £3,750,000,000 and (2) £3,000,000,000 (taking one-half the existing unrealized "unearned increment").

How should the purchase price be paid? Some suggest in cash—a manifest impossibility; others by the issue of Land Stock carrying a fixed rate of interest; others by annuities either permanent or for a period. There is perhaps little to choose between the two last-mentioned methods. The annuity method has the advantage of definite redemption of the whole land debt within a fixed period of years. On the other hand, the Land Stock method leaves the arrangements for redemption more elastic, and makes it more easy to apply surplus revenue of other kinds to the clearing away of this debt.

There is one point which should be borne in mind in fixing the purchase price and the method of payment. The investment value of land can only emerge in the shape of income which is subject to income tax. Unlike other forms of wealth, land cannot be trans-

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ferred abroad, nor can its produce escape tax. The spending power of the owner of land is therefore most truly measured by the net income after paying income tax. The same thing is of course true of other forms of immovable capital, such as houses, factories and fixed machinery; but it is not invariably true of other assets which produce incomes. If the purchase price of land is measured by reference to its gross income, it is only reasonable that it should be paid in such a form that income tax is charged upon the whole. Payment by way of annuity, the whole being paid less income tax, would meet the condition. The Land Stock proposal would equally meet the point provided the Government had the right to redeem the stock after a certain period at a price which should have regard to this permanent and unavoidable liability to income tax.

As the operation of purchase would in effect consist merely of the exchange of the title deeds of land for certificates of Land Stock, no new credit or additional purchasing power would be created, and the general financial position of industry would not be directly affected in any way.

It may perhaps be suggested that the psychological effect of land purchase might have undesirable reactions on industry, on the assumption that it would create in the minds of capitalists an uncertainty as to possible State interference with other forms of productive wealth. Some such suggestion must be expected in connexion with any movement in the direction of State control of industry; but it would have least point in connexion with a proposal of land purchase under which the landowner was to receive

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not less than the capital invested or the value created by himself.

On the other hand State ownership of the land, if regarded not merely as a means of acquiring revenue for the State but as a trust to be developed in the interests of the community, could hardly fail to be of great benefit to the whole industrial condition of the country. The fuller utilization of the natural resources of the State, the establishment of a prosperous and contented population on the land, cultivating the soil in the most effective way and calling for the most up-to-date appliances for that purpose, the development of our towns on sane and healthy lines, the abolition of slums and the eradication of the slum-mind that at present blights the life of so many thousands of the people, must not only raise the general standard of living as a result of the increased production, but must send a current of new vitality and hope through every corner of the land, and stimulate its industrial life as possibly could no other measure that human beings could devise.

CHAPTER XV

CAPITAL AND THE STATE

Capital—Business of Ownership—Business of Management—Non-essential Capital—The Outstanding Facts as to Capital—Good and Evil Aspects—Perfect State not Necessarily Possible—Importance of Facing the Facts Honestly—Relative Urgency of State Ownership of Various Forms of Capital—Helplessness of the Individual in a Complex Industrial Society—The Power of the Organization of Supply—Steady Extension of State Ownership—Danger of Expressing this Evolutionary Process by a Rigid Formula

THE practical problems involved in the term "Capital" are much more varied and difficult than those we have considered in connexion with the Land. In the case of the Land we were concerned in the main with the question of ownership; and the "business of ownership" is a *relatively* simple thing. The guiding principles of such a business are capable of clear and definite statement. They are of general and permanent application. The conduct of such a "business" does not call for the speedy and varying decisions necessary to meet conditions which are incessantly changing and which cannot be easily foretold; nor does it demand a knowledge of affairs—other than remotely—outside the immediate incidents of the thing owned. Moreover, the "business of ownership" calls very little for continuous activity. Its work is mainly periodic. We may, therefore, expect

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to find smaller practical difficulty in the sphere of State ownership than in that of State management; and the problem of Capital is very largely one of management.

In dealing with Capital we can no longer appeal to the simple, axiomatic principles upon which we can securely rely in the case of Land. The Land in its fullest sense was not created by any human being; Capital is entirely the result of human effort. Land is a vital necessity without which the human race cannot exist; mankind can exist entirely without Capital; and, although it is essential to the industrial form of society as we know it to-day, yet even to-day a vast amount of capital plays no *essential* part in human life, helps in no sense to produce the things upon which human life depends, but rather forms a cumbrous and wasteful part of the present complex system of distribution. Capital employed in the distinctive luxury trades is open to this general criticism. It forms a part of the distributive machine in that it is the means by which wealth in the shape of wages passes into the hands of the workers and gives them command over the things which are necessary to them. It plays a definitely obstructive part in the realm of production, since it employs labour and material which could under other circumstances have been devoted to the further production of things necessary to the great mass of mankind. It may, however, be said to play a positive part in the work of production in so far as it is true that the hope of enjoying "luxuries" is the necessary stimulus without which the best efforts of our great industrial organizers will not be exercised; and from the purely "local" point

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of view it may be said to play a like positive part in so far as its produce enables the country to purchase necessities from abroad.

We must seek in the nature of Capital itself for the principles which should guide us in determining the relations which should exist—and could in practice be securely attained—between Capital and the State.

In a review of the history and theory of Capital certain outstanding facts emerge :

1. Capital is an enormous aid to production, and (in some of its forms) is vitally necessary to social existence as we know it.
2. Capital can only aid production by being itself destroyed; and its continual re-creation is an essential condition of modern life.
3. Capital can only be created by directing labour from the production of things of final consumption (food, drink, etc.) to things of intermediate consumption (machinery, ships, factories, etc.).
4. This diversion of labour has hitherto been mainly the voluntary act of individuals who possess wealth or command over labour power; in other words, the result of voluntary saving (in the common sense of that word).
5. The increase in the relative efficiency of Capital (e.g. the invention of new machines, better organization, etc.) has been mainly the result of individual effort.
6. Competition has hitherto served to stimulate the effort to improve the efficiency of Capital.
7. Competition among numerous independent capitalists has caused enormous destruction of Capital,

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and is giving place more and more rapidly to a non-competitive state involving monopoly or single control.

8. The capitalist has hitherto regarded Labour as a "machine of production"; and, as part of his endeavour to make Capital "more efficient," has striven to restrict the cost of labour (i.e. wages) to the smallest amount consistent with the efficient working and reproduction of the "machine." A rooted antagonism between Capital and Labour has been the result of this mistaken view.
9. Capital has generally been (with occasional exceptions) in a position of economic superiority to Labour owing, among other things, to its greater "staying power," its easier organization, and its greater concentration. The rapid advance in Labour organization has done something to limit the power of Capital in certain areas and in certain industries. The relations between the two are still mainly those of active or potential war; and as the strength of both increases, the active phase of this war becomes more widely destructive, and ultimate disaster is threatened unless, in some way or another, the sense of antagonism can be replaced by one of co-operation.
10. The power of Capital in the industrial sphere has made it also supreme in the political sphere.

Nothing is easier, nothing perhaps more natural, than for those who feel a bitter impatience with the present state of things to select some of these facts and to ignore the others. The human mind prefers simple and clear-cut solutions to its problems. When feeling is acute, the careful balancing of pros and

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cons is impossible, is indeed often regarded as an outrage, a treachery, a compromising with iniquity. And yet the more vital and difficult the problem, the more need is there for intellectual honesty among those who would find the true solution. "Private capitalism" may be an evil (and it certainly has many evil aspects), but it does not *necessarily* follow that there is any simple or complete remedy. A thing is not *certainly* remediable because it is in itself repugnant. Nature is full of repugnant things. Life lives everywhere on life. The lion does not lie down with the lamb. We recognize these things readily enough. We simply say *it is natural* that these things should be so. This incessant war of life on life is in some terrible way a quality of life itself. We know that to change all this is beyond human effort, and that, at the most, we may mitigate some of its harshest features.

So it is with human life itself. There are aspects of it which are repugnant to us to-day, and have been repugnant to many for thousands of years; but so far they have proved incurable. We must expect to find the same defects in our social relations as we find in our individual lives. Indeed, it seems a mere truism to say that a perfect society cannot be composed of an aggregate of imperfect individuals.

Modern society cannot exist without Capital. *If it is true that, owing to a defect in human nature, Capital cannot be re-created and accumulated except under the stimulus which "private capitalism" affords, we are faced with the fact that the destruction of "private capitalism" means also the destruction of the community. It is widely asserted that this is so;*

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and the *possibility* that it is true (within important limits) should give them pause who would cure the evils of "private capitalism" by uprooting that system altogether.

The very varied "social incidence" of Capital in its numerous forms makes it impossible to lay down any single and comprehensive rule as to the whole. There are forms in which Capital is vital to the State, as vital as Land itself. There are others of no importance whatever to the continued life of the community; and, between these extremes, forms of Capital which represent a social need in varying degrees. Each presents its own set of problems; but with each is associated the question of the "human" factor in the re-creation and accumulation of the Capital concerned.

It would be advisable, therefore, to approach these aspects of capitalism separately, according to their different degrees of urgency; and we may perhaps hope in that way to see the practical problem in a clearer light and a truer perspective.

The urgency of State acquisition or control of capitalistic enterprises depends on two conditions: the degree in which the particular product is *essential* to the life of the community, and the measure of monopoly involved in the enterprise. If both these conditions are present the strongest case exists for the effective transfer of the undertaking to the State.

Industries of an *extensive* character, i.e. not necessarily limited to one place, but capable of being undertaken in many parts of the world and demanding a relatively small amount of capital, do not lend

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themselves readily to monopoly. Industries of an *intensive* character, i.e. necessarily limited to definite localities and demanding a relatively large amount of capital, lend themselves readily to monopoly. In the first class, the primary process of production may be exempt from monopoly; but monopoly may intrude at some later point where a process of manufacture demands great capital, or in the process of distribution in which great capital, exceptional organizing power, and perhaps alliance with the monopoly of transport, play a great part.

Food is a vital necessity; but the production of the raw material of food is an extensive industry in which monopoly has little or no place. Wheat, for example, is grown over vast areas and in many different countries. No single organization can (at present) hope to control so large a proportion of this enormous and widespread industry as to be in a position to dictate a monopolistic price for the raw produce. If it were so, the State ownership of land would afford an effective cure. The same fact is true of cattle-raising. Such primary industries as wheat-growing and cattle-raising do not therefore fall within the *most urgent* class of State undertakings.

On the other hand, certain later processes in the preparation of this raw material for consumption do lend themselves to at least a partial monopoly. Flour milling requires substantial capital; and the work is in few enough hands to make "price arrangements" possible. In the same way the preparation of meat products, demanding an enormous organization of collection, manufacture and distribution, offers remunerative monopoly in "competent" hands, as the

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world knows to its cost. These manufacturing processes may therefore at some stage call for State interference on behalf of the community.

Water is a vital necessity; and in the case of towns of any size its provision can only be carried on as an "intensive" industry. The service is inevitably a monopoly; and the supply of water falls accordingly into the "most urgent" class of State undertakings. This fact has long since passed the stage of "theory"; and to-day it is almost inconceivable that any considerable town should depend upon private enterprise for its water supply.

In a thickly populated industrial society transport is a vital need. Internal transport is not of necessity a monopoly since alternative and competitive services are possible. Duplicate services are however exceedingly wasteful; and the demand for interest on the enormous capitals involved leads through competitive rates to working agreements, and ultimately to amalgamation. As that point is approached we have present the two conditions of "urgency"—an essential service and a monopoly. The State is then compelled in its own defence to interfere; and the only question is whether it is a case for State control or State ownership.

In the light of these examples and the many instances we may see about us in our everyday life, we may roughly classify the various activities which supply the needs or the desires of an advanced industrial community according to the urgency with which the question of State ownership or control calls for consideration. The choice between ownership and control will depend upon the intrinsic character of the

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particular industry rather than upon its extrinsic relation with the life of the community.

Class I (involving both necessity and monopoly) :

Defence (army, navy and police).

Drainage.

Water supply.

Class II (involving necessity and a limited competition leading to monopoly) :

Lighting.

Transport (internal).

Coal.

Banking.

Power.

Class III (involving necessity but no monopoly in production owing to foreign supplies or alternative services, but threatening monopoly at some point between the producer and the consumer) :

Shipping.

Food.

Housing.

Class IV (involving neither necessity nor monopoly) :

Luxuries generally.

Many *conveniences*, both business and domestic.

Each of these services *could* be undertaken by private enterprise; and in primitive states they were essentially matters for the individual. Most of them are private undertakings still.

The development of a complex industrial society is marked by the growing helplessness of the individual. He becomes less able to fend for himself, more dependent upon outside agencies for the supply of the things he needs; while at the same time his wants

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become ever more varied in character. As an inevitable consequence, the power of the "organizations of supply" over the individual citizen steadily increases; and the logical outcome of this process must be that the "organizations of supply" will become the supreme power in the State, unless the State itself in the meantime constitutes itself the "organizer of supply."

It is interesting to note in connexion with the various degrees of urgency above set out how, with the progress of society, private industry has been steadily displaced by that of the State. Class I has practically entirely "gone." Class II is "going"; and the question of State control as an alternative to State ownership of the (at present) "free" industries in that class is one of the most hotly debated questions of the moment. Class III, under normal conditions, is as yet quite "free" in this country; but under the stress of war even those industries passed under more or less rigorous control.

There is very little doubt that the process of State ownership (preceded, perhaps, by some form of State control) will continue until Class II has been absorbed. Class III is not likely to remain exempt. It is difficult indeed to suggest at what point the process will ultimately stop; although a modification in the acquisitive spirit of private enterprise may arrest its progress—self-control in the common interest is in many ways more desirable than State control, provided the common interest is equally well served.

It is not unnatural that the uncritical observer, noting the process and feeling in a more or less ill-defined way the frequent antagonism between the

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interests of private capitalism and the interests of the State, should seek to generalize from these various particular instances, and to express his attitude to this complex and intricate problem in a brief and satisfying formula. This frequently takes the shape of the "abolition of capitalism" or the "transfer to the State of the whole machinery of production and exchange." Generalizations are proverbially dangerous; and especially so when it means expressing in a rigid formula that which is in its very nature an evolutionary process. The same danger, the same insufficiency, attends all the generalizations or the formulæ of politics. No "static" principle can apply to a class of things inherently "dynamic." No such difficulty exists, however, if we regard the formula as a convenient summary of a general attitude towards social organization, as expressing an ideal towards which the social State should move, and not as the exact expression of immediate purpose.

Such formulæ are particularly dangerous to the ill-informed (they carry them too often out of the world of reality into the region of mere abstraction), and a fruitful source of division and misunderstanding among large classes of people who probably at bottom view individual facts of social life in much the same way.

In no class of social phenomena is it more important to be on our guard in this respect than in that summed up in the general term "Capitalism." The relations between Capitalism and Society are subject to continual modification. The object of *practical politics* is to determine how fast this evolutionary change can take place without destroying the social

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organism itself; not what are the steps yet to be achieved, but what is the next step that is desirable in itself and in accord with the general tendency which the history of the particular society clearly indicates. The direction of the development of the form of Society we find in this country (and in varying degree throughout Western civilization) seems obvious enough. Already the industries falling within the first class set out on page 189 have passed definitely into the admitted field of State enterprise. The second class is moving in the same direction; and our immediate purpose is to consider how the relations between the State and the remainder of that class call for a like modification in the near future.

In connexion with combinations of capital, trusts, price arrangements, etc., reference might be made to the very valuable "Report of Committee on Trusts," issued by the Ministry of Reconstruction (Cd. 9236; price 6d.), which includes an extremely interesting study of the general question of trade organizations and combinations in the United Kingdom by Mr. John Hilton. The student will then appreciate more clearly the misleading references to the "value of competition" so frequently made by writers on industrial economics.

CHAPTER XVI

CAPITAL AND THE STATE (*continued*)

Lighting—Transport—Coal—Power

IN the second class in relative urgency (see page 189) we have a group of industries—lighting, transport, coal, power—which are intimately connected, so intimately, indeed, that there would seem to be a necessary and logical case for their similar treatment. Coal lies at the root of them all, and forms the very foundation of our industrial life. Power is the transformation of coal into energy. Lighting and transport are two applications of that energy without which (particularly the latter) our whole social and industrial system must come to the ground.

It is no longer necessary to argue the case for State *interference* in these industries. The era of uncontrolled private enterprise in this department of the national life has definitely passed; and, however much the individualists of the school of *laissez faire* may regret the fact, we have entered the period of State interference in these matters. The hands of the clock cannot now be put back. The character of that interference, whether it is a mere limiting of prices or whether it proceeds to control in methods of production and use, or to the ultimate point of State ownership, is still an open question. It is, indeed,

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likely to be the point about which most of our domestic politics will centre during the next few years.

LIGHTING

Lighting, dependent on some central source of supply, is to-day a "social necessity." Candles or oil lamps could, if need be, serve the purpose; and they are still used in areas in which supply from a centre is not a profitable undertaking. But in all centres of population, except the smallest villages, gas or electric lighting has definitely entered into the standard of comfort of the people. This fact has made centralized lighting a "necessity" in spite of the existence of the primitive substitutes mentioned. Centralized lighting is, however, of the nature of a monopoly. The cost of production and the elaborate system of distribution, together with the inevitable "public nuisance" of torn-up roads, make competition between like services impossible. Gas lighting was at one time the only method available, and was early regarded as an appropriate object of public ownership or control.

Public control took the form of control over the quality of the service and of the price; and numerous gas undertakings are still in this position, the control over price being effected by limiting the dividend the company is permitted to pay, or by establishing an elastic relationship between dividends paid to shareholders and prices charged to consumers.

In many important cases, however, the gas supply became a public undertaking; and it is probable that that process would have gone much further and faster but for the intrusion of electric light and power. The electrification of our social life is proceeding very

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rapidly; and, although gas undertakings may linger for a long time to avoid or postpone the loss due to the scrapping of much costly plant, mains and fittings, there is little doubt that it is destined to be completely superseded by its cleaner and more efficient rival.

As electric supply is destined to become both a necessity and a monopoly, it will pass into our first class of urgency, and public ownership must inevitably follow.

The complete socialization of this enterprise may be postponed for a time. Hitherto the supply of electric light has been regarded as a "local" matter, a concern of local companies or municipalities, and not appropriate to national action. Municipalities may feel a not unnatural reluctance to undertake the service so long as a private service can be secured at moderate charges. The cost of a municipal service under present conditions is extremely heavy, and the interest payable on loans is likely to remain high for some years to come, while the method of producing electric power is open to considerable change. But so soon as the production and supply of electric power ceases to be local and becomes national in the range of its organization, the local service will be confined to distribution only, the practical difficulties in the way of municipal service will have largely disappeared, and the system of public ownership of the distributive service will follow the system of public ownership of the productive service.

It is hardly to be doubted that great economies must result from such a national-municipal system as methods of generation and distribution are im-

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proved; and, what is equally important from a social point of view, the cost of the service may be made uniform. The necessities of social life should be available to all on the same conditions. It is inequitable, and it is contrary to the national interest, that the cost of an essential service should vary within wide limits in different parts of the country. If we seek an "expansive" rather than an intensive national development, there should be no differential advantages, in themselves avoidable, to drag the people to congested centres. The attraction to the towns is great enough as it is, and a wise social policy would assure to the dwellers in the rural districts, as far as possible, the privileges of the towns. The profit-seeking policy naturally followed by private enterprise leads to this one-sided development, and this can only be reversed by a social-economic policy under State ownership which will regard the community as a whole, and distribute its services as a whole, even though particular areas may not show a "profit" on the undertaking. There is no reason why any village of any size should be without electric light if a national system is established.

In its position of a monopoly the commercial difficulties of public ownership are reduced to a minimum. Prices will be determined by the cost of production. The main difficulty common to public as well as private enterprises lies in the question of labour, a question which we shall consider separately.

The practical problem does not call for the immediate purchase of all private undertakings. To do so means that many municipalities will be saddled

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with obsolete and uneconomic systems, some of which must in any case be scrapped in the near future. If the policy of State-owned power stations is pressed to an issue, further municipal enterprise in the matter of public lighting should wait until such stations are established. In the case of a necessary and monopoly service consumers are entitled to expect the benefit resulting from improved methods of production and distribution. All private enterprise must risk the loss of capital sunk in obsolete plant when more efficient machinery is invented. That risk is involved in the competitive struggle which is supposed to be the prime virtue of individual enterprise; and there is no reason to exempt from that risk those who have enjoyed the advantage of monopoly services, although some consideration is due to the fact that in those cases the opportunities of monopoly have been limited by State action in the field of prices or profits.

TRANSPORT

In a highly developed industrial community transport is as vitally necessary as food itself. Its suspension may be borne a little longer than hunger; but the town deprived of transport for more than a brief period is condemned to starvation as surely as if its food supply were cut off. In one sense transport is food. *Wheat in the country* is not food *in the town*. There must be added to it the necessary quality of *situation* before it is of use to the townsman, and this quality is given to it by the transport system. Transport, except in the case of passenger traffic, is not an article of "final consumption." It is a process only, and its social utility disappears as a separate

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thing, to reappear in that quality of *situation* without which every form of wealth is worthless.

The mechanism of a transport system is an extremely expensive thing, and economic waste takes place if that mechanism is not used to its fullest capacity. Some such waste in all complex machine industry is inevitable, since not even by the most exact organization can every part of the complex be worked at *full capacity all the time*. This is specially the case with transport. The quantity and position of locomotives, wagons, carriages, etc., cannot be so finely adjusted as to ensure that each is fully employed *continuously*. An alternative transport service, however, is wholly waste, so far as it is purely alternative; and although no two railways give only identical and alternative services, nevertheless under a purely competitive system very much of such "alternative" waste must take place.

Waste represents a definite social loss. If two engines are made where only one is needed the labour and capital spent in producing the unnecessary engine are wasted; they could have been employed to increase the supply of things useful to the community. The unnecessary engine therefore implies a smaller quantity of those things consumed by the people. This evil of waste in a competitive transport system is too fully recognized now to need further comment. It can only be eradicated under a unified system in which competition finds no place.

This unity in control is of course possible under a system of private ownership, and the proposed reorganization of British railways in a few groups working particular areas is a definite step in the

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direction of the elimination of wasteful competition from which it will be impossible to recede. The transport question, however, involves much more than this.

Transport must be as cheap (economically) as possible. That is, the service rendered must not absorb a greater quantity of labour and capital than is necessary, otherwise waste takes place, and the community suffers in just the same way as in the case of the unnecessary engine. Moreover, the price charged for the service must be as small as possible, consistent with the maintenance of the service itself.

Here we have conditions which are unattainable under unrestricted private enterprise. Minimum costs could be secured in that way, no doubt, but not minimum prices, since the primary object of private enterprise is the maximum profit to those who undertake it. Minimum prices can only be secured by depriving private enterprise of part of its freedom. Public control (in the shape of legal maximum rates) is essential in just that field which makes private enterprise so attractive, and which, in the opinion of the *laissez faire* school, affords the particular stimulus which gives private enterprise its advantage over State undertakings.

We have thus reached unity of administration and public control of prices, and nothing remains but public control of the unified administration to convert this position into one of complete State ownership. Is this final step necessary? The answer would appear to be an unqualified "Yes!"

The community is not a merely economic society whose sole object is profit—the largest possible incre-

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ment of unconsumed wealth at the end of each year. The more valuable elements in social life lie outside the purely economic field altogether. Social happiness, sanity of mind, health of body, harmony of spirit, and those countless intangible joys which distinguish, or could distinguish, the life of man from that of the brutes, do not depend on pounds, shillings and pence. Food (i.e. social production) is necessary; but "man does not live by bread alone. . . ."

Private industry is, however, purely an economic undertaking. Its results *are* measured by pounds, shillings and pence. Those higher elements of human life find no place at all in its primary purpose, and will not be sought even indirectly if they threaten that primary object in any way.

It is probably in this question of transport that we see most clearly the inadequacy of private enterprise to satisfy "social" needs, and, indeed, its innate antagonism to the higher forms of social well-being. Profit-seeking implies the largest possible receipts at the smallest possible expenditure; and, in the case of transport, profit-seeking finds its best opportunity where traffic is dense, i.e. where passengers and goods are collected in great centres. Its opportunity is least where passengers and goods are widely scattered, the running expenses in such a case being relatively much greater than in the former. Under private enterprise railways very naturally tend to serve the great towns and to neglect the sparsely populated rural districts; and this, in its turn, tends to draw both people and industry to great centres. It is certain that without the railways the great towns could never have grown to their present size, nor could in-

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dustry have developed as it has during the past fifty years. The part railways have played in the economic development of the country can hardly be overstated; but, on the other hand, the decay of the countryside and the vast masses of the towns are a social evil of the first magnitude, an evil for which a cure must be found if the national development is to proceed on healthy and well balanced lines.

Private enterprise will not serve this purpose. The traffic of a rural population *by itself* does not "pay." Some small attempt has been made to induce private enterprise to provide such "rural" service by means of Government subsidies, but the very small success that has resulted forbids us to expect a solution of the problem in that way. No satisfactory solution can be hoped for until transport is recognized as an essential national service which must be rendered to the whole community, although the cost of that service may involve an "economic" loss in some parts as a set-off against an "economic" profit in others.

This national object is not to be attained in one year or perhaps in many years; but the governing conception of transport administration should be the redistribution of the national life. *Under private enterprise it cannot be done.* Not only can we not expect those whose primary impulse is self-interest to perform duties whose dominating purpose is public interest, but the redistribution of the economic values of land which would follow a national transport system makes this peculiarly a matter for the State.

If these reasons are sound, we are forced to the admission that public control of transport administra-

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tion is a social necessity; and, as pointed out above, if that is granted, we have all the elements which together constitute public ownership.

When all other arguments against public ownership have been swept aside there always remains the question of finance. Where, however, public ownership is desirable and practicable in other respects, the question of finance need give no cause to hesitate. That question consists of two parts: the finance of the transfer of the existing system to the State, and the finance of its development and operation under the State.

As regards the purchase price of existing undertakings, the present owners should receive just compensation. Let it be admitted that railway companies in the past have made many mistakes, have been guilty of much waste, and have failed to do many things which the public interest required. That is doubtless true. On the other hand the railways, representing vast investments of savings (which have yielded a modest return only to the investors), have done a great work in developing the resources of the country, and have done it to a great extent under conditions imposed by Parliament. The debt should be recognized. Any degree of repudiation would be of unhappy omen to the newer conception of social life, which can only be successful in practice in the proportion that equal justice marks the relations of all its parts—and equal justice there cannot be if those who have devoted their labour and capital to one form of enterprise are penalized as compared with those who have turned their labour and capital elsewhere. Still more unjust is it when the penalty falls upon

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those who have undertaken or supported enterprises regarded as vital to the State, with immunity to those who have put their capital into things more individually profitable, but unnecessary or even harmful to the common weal. The purchase price should, therefore, be a just one; and if it involves a "loss" to the purchaser, that loss should be shared by the whole community, as any other common national expense is shared. What constitutes a just price will no doubt be a matter of serious argument, with which we are not here concerned. It will certainly not be the "nominal" value of railway (and other transport) stocks, since much of that nominal capital consists of "water" and represents no material assets whatever. It will not be the "scrap" value of existing plant, since the present shareholders possess a "going concern." It will be closely allied to the income the shareholders have enjoyed; but this alone will not be a "just" measure where absence of income has resulted from the attempt to give services to the community and not purely to seek profit. Provided, however, it is agreed that the compensation shall be "just" there need be no special difficulty among men of goodwill in determining its basis and amount.

No cash is necessary (or possible) to effect the purchase. The issue of railway stock of such nominal amounts and such rate of interest as may be suitable, and open to redemption by the State after a fixed period, is all that is required. Such part of the purchase price (and interest) as represents its excess over the real productive value of the existing concerns in the new national system (and this may be substantial owing to much inevitable scrapping on reorganiza-

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tion) should be treated as part of the general State debt in order that rates and fares under the national system may not be inflated, and the development of that system impeded by the burden of this dead matter.

The finance of the State system itself must be measured on some other than the "net profit" basis if it has to serve other than purely economic ends. If that system is to effect some redistribution of the national life its own development must precede such redistribution; and it must therefore be anticipated that some period will elapse before new capital expenditure (whether in the form of new trunk lines, or light railways, or motor services, or other auxiliary undertakings) shows any effective return. Having regard, however, to the facts that large economies should result from a unified system, that the burden of dead or obsolete matter need not fall as a charge on the railways, and that the increase in the economic value of land served by the extended system will accrue to the State, there is no reason to doubt that, even on financial grounds alone, the State system will be justified. The indirect benefits resulting from a better distribution of the population are not capable of measurement; but they cannot be omitted in any attempt to estimate justly the advantages of State ownership.

In all practical discussions of State industry the problem of Labour must take a predominant place. The difficulty enters into every side of the State activities, as each involves the employment of a greater or smaller number of paid employees. The general question will be discussed later when we are

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considering the distribution of the national wealth. It is therefore sufficient to say here that if "nationalization" is regarded as a purely economic measure, it will go but a little way to cure such evils as are inherent in private ownership. If, on the other hand, it is regarded (as I hope it will be) as based on a higher and nobler conception of human relationship than that of the market-place, if it is esteemed as one aspect of a newer social unity, it will go far to realize the hope of its most optimistic supporters. Which view governs it in practice will depend almost entirely on Labour (in all its branches). Labour can make or mar it; and personally I am convinced that Labour will rise to the height of its opportunity when once it realizes the glorious responsibility which falls upon it.

COAL

The problem of coal has been so exhaustively dealt with in the Report of the Coal Commission and elsewhere that it is unnecessary to make more than a brief reference to it here. The peculiar importance of coal to the social and industrial life of this country is obvious to all. If the national organization we know as England rests upon one thing more than another, it rests upon its native coal. Imagine the coal supplies of this country exhausted! In fact, we cannot imagine it. We live upon it. A large proportion of our food and raw materials of industry comes from abroad. We purchase these by means of our shipping and by our exports of coal and by the produce of our factories for which coal is essential. The whole community therefore has a very direct and vital interest in the production and distribution of

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coal, and in the economizing of this most important of our national resources.

The State needs an ample supply of coal for its industries and its domestic consumption, and needs that supply at the lowest possible price. It must therefore regard very jealously not only adequate production and the economical use of coal, but the price the coal owners charge to home consumers and the amount they export. Unrestricted private ownership has been shown to be incompatible with those essential objects; and, in spite of all the prejudice which existed in influential circles against interference with the freedom of the coal owners, the State has been forced to step in to control both prices and exports. This action of the State was no doubt caused by abnormal conditions, the suspension of so large a part of Continental mining due to the war giving the English coal owners a substantial monopoly, and at the same time intensifying the demand for their product. Without such State interference it cannot be doubted that not only would the price at home have reached an almost prohibitive figure, but the temptation of the "ask what you like" prices abroad would have led to so large an export of coal as to bring many of our industries to a standstill. Such a situation was too dangerous to be permitted, and in the national interest the rights of private ownership had to be curtailed.

This necessary Government control has at least brought home to us the extreme importance of coal to our national life, and the danger of exploiting our coal resources in the sole pursuit of private profit.

It is hardly disputed that unity of control will

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result in considerable economies; and the strongest opponents of public ownership regard some measure of unity by means of district grouping as desirable to this end.

Of the many arguments in favour of national unity of control, the strongest probably is to be found in connexion with the price of coal. We have heard much of the "margin of cultivation" in the case of land, the market price of the whole produce being determined under the competitive system by the cost of production on the least favourable land in cultivation. Much the same result arises in the mining of coal. Coal will not be worked unless under average conditions a price can be obtained which will yield a commercial profit on the working. The least favourable mines, where the cost of production is greatest, must in the long run find such a market price or close down. The high price necessary to keep alive the worst mines (which *must* be kept alive to meet the demand for coal) governs the market, and applies equally to the best mines where the cost of production is much smaller. There may be no *immediate* response of the market price to the worst production costs since mines cannot be "thrown out of cultivation" and taken up again at will. The great capital expenditure involved, and the fact that the abandonment of most mines for even a short time probably means their destruction by flooding or falling in, compel the mine-owner to go on even at a loss in the hope that higher prices will come along and save him. Coal mining is as a consequence a very speculative enterprise in many cases; but *in the long run* the rule is true that prices are governed by the most

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expensive production. Under national ownership, *and only under national ownership*, the cost of coal to the consumer might be based upon the average cost of production *of the whole*; and this average cost might be maintained from year to year with relatively little change owing to a uniform national wage rate and a uniform production.

It is important to remember that coal is a necessity (until at least new sources of power, light and heat are discovered), and that the avoidance of fluctuations in the price of necessities with a consequent steady-ing of the cost of living is one of the most important factors in eliminating labour unrest from the life of the community.

The question of wages enters very largely into the general problem of the coal industry, and is dealt with under the head of Distribution. Equal wages for equal work cannot be secured under any system of multiple private ownership, *and there can be no peace in this industry until the ideal of equal wages for equal work is achieved*. Some system of pooling the whole industry—i.e. national unity—is necessary to this end. We need, therefore, a nation-wide unity of ownership of the coal, unity of control as regards management and rates of wages, State control of prices and of distribution. Here we have all the elements of State ownership; and the intrusion of private self-interest at any point could only be a source of weakness and a disturbing influence in an otherwise uniform system.

POWER

The production and supply of power hardly falls within the group of industries considered in the fore-

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going pages. Power is a necessity; but it is not at present a monopoly. So long as power is produced from a myriad independent sets of boilers and engines, and coal is to be obtained, monopoly in power is impossible. But independent power production is wasteful and uneconomic. It may, of course, be said that as any man can instal his own engines, so he will never be dependent on a central supply controlled by somebody else. But in competitive industry that is not really the case. In theory, a man can continue to use a handloom, and it might therefore be suggested that there can never be a monopoly of weaving. But handlooms as *instruments of trade* are dead. The more economic process must sooner or later drive out of use the less economic process. The same law applies to power-production as it does to every other phase of industry. Individual production of power will give place to mass production of power, just as individual is giving place to mass production throughout the world of manufacture; and already the practice of drawing power from a central power station is in existence and is growing.

If, therefore, power is a necessity (as it is) and is destined to become a partial or complete monopoly (as it must), it would seem wise that the State should step in before the monopoly is created.

On the ground of national economy also, State action appears eminently desirable. At present our native coal is the main source of the power used in British industries. Some other source of power may some day take its place; but while coal is so pre-eminently necessary, it is but simple sense to use it

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in the most economical way. The opinion is widely growing that electric power developed at central stations in close proximity to coal mines (to save the cost of transporting coal) is more economical (as it is certainly cleaner and healthier) than steam power developed in thousands of boilers scattered over the country; and recent proposals show that such central power stations are a practical proposition.

For yet another reason, the proposal calls for support. The nationalization of the railways will expedite their electrification; and unity of control will make a uniform system of power generation not only possible but essential.

We may therefore include Power Production in our second class of urgent matters, without violating the principles on which that classification is based.

CHAPTER XVII

BANKING

State Interference—Alleged Discouragement of Accumulation of Capital—Vital Importance of Capital and Credit—Power of Finance—The Time Element in Industry—The Need of Credit—Example of Cotton Growing—The Advantage of a Credit System—Its Possible Dangers—Relative Merits of State and Private Banking.

WHENEVER any proposal is made involving State interference with industry, either by way of ownership, control or taxation, objection is commonly urged on the ground that nothing should be done to discourage the accumulation of capital or to restrict the supply of credit on which industry, under the existing system, so vitally depends. The undoubted truth which lies at the root of this objection has led to the inquiry whether, if the industrial life of the community depends so completely on the supply of capital and credit, it is desirable, or even safe, that this "vital necessity" should be under the complete control of private organizations. In other words, has the time arrived when "Banking" should pass under State control or even into State ownership?

The extreme delicacy and complexity of the machine of Finance make the utmost caution necessary in approaching the question of State interference. On the other hand, the enormous and the growing

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power of Finance, a power which makes it possible for the "money kings" to reduce millions to destitution, imposes upon the State a responsibility which it can only disregard at its peril. The statement already made that the "organizations of supply" will in time control the State unless in the meantime the State controls them is true in a special degree in the realm of Finance.

Let us first understand what service it is which the "credit dealers" perform—and which must be performed—in the industrial life of any advanced community.

All industry consists in bringing together labour and material and obtaining from their association a product which embodies the "value" of each. For example, raw cotton, labour and machinery are brought together and cloth is produced, the intrinsic value of the cloth representing the separate values of the cotton, labour and machinery "used up" in the process. This process (and the further process of "sale" of the product) takes time; and it is this inevitable element of *time* which makes a credit system essential in any efficient industrial community.

Take by way of illustration the cotton industry in its simplest form. We have A the grower of cotton, B the grower of food.

During the months which elapse before the cotton crop is ready to be picked, A must provide his labourers with food (at a total cost, say, of £1,000). He obtains the food from B. B requires "payment" for the food, so that he may continue his own industry. He cannot afford to wait until the cotton crop is gathered and paid for. A may do one of two

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things. If he possesses £1,000 in gold, the common medium of exchange (or any other form of wealth which will serve B's purpose), he may hand that to B, and the matter is settled. Or he may say to B, "The value of your food is in my growing cotton, and I give you my written promise to pay as soon as the value in my cotton is realized." B replies, "That will not suit me. Your crop may fail, and your promise to pay prove worthless. If you will give me a promise to pay which is certain to be honoured, and which everybody knows will be honoured, I will take that, because other people will be willing to take it from me." A accordingly goes to a bank, and the bank gives him "promises to pay" (or actual cash), which he hands over to B. The bank is running a risk of a failure in the cotton crop, but the risk is eliminated owing to the great number of transactions the bank undertakes.

It is obvious that, if "credit" does not exist, A's cotton-growing must be limited by the amount of transferable wealth (gold, etc.) which he possesses. But gold itself represents the expenditure of much labour; and the total amount of gold in the community is inevitably too little to "pay for" industry on any but a very small scale. B, however, may be willing to accept A's personal promise to pay, backed by some gold as a margin against possible loss. A's operations may be thus somewhat more extended; but they are still limited by reference to the amount of gold he himself possesses, and by the fact that the manufacturer to whom he sells the cotton can also only pay partly in gold and partly in "promises." In either case, the extent of A's industry is limited; and what

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is true of A is equally true of all other industries in which a period of time elapses before the final product appears.

The existence of a banking system removes these shackles by which industry is impeded, and permits industry to expand without definite limit. So long as the produce of such industry does not exceed the requirements of the community, i.e. so long as the produce can be sold at prices which cover the costs of production, the effect is entirely beneficial, and the community enjoys an abundance of goods which could not exist without the aid of "credit." If "credit" is provided by the banks in an excessive degree the industry may be expanded beyond the needs of the community, and the price realized may as a result fall short of the costs of production. There follows ruin to the individual producer, and possibly disaster to the bank.

As a set-off to the social advantage of a credit system, we must draw attention to its possible danger.

A bank making such advances is entitled under ordinary circumstances to require repayment at any time (we assume an ordinary bank overdraft for the sake of simplicity); and as repayment can only be made out of the money received from the sale of the crop, the farmer may be compelled to sell the crop at a time dictated by the bank. Where the market for the particular kind of produce is largely controlled by big dealers, they are able to a great extent to dictate the sale price of the produce *if the producer is under compulsion to sell*. To compel the producer to sell his crop at a particular time is to leave him at the mercy of the dealers; and an arrangement between

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the banks and the dealers (the one to compel the producer to realize and the other to fix the smallest possible price) may result in the whole profit of the producer passing into the hands of the "financiers," or even in the absorption by them of the whole of his accumulated capital.

There is little evidence of such arrangements in this country; but, if half the stories which have reached us from America are true, such "conspiracy" on the part of "finance" has been a fact of very serious importance.

Apart from any deliberate action of that kind by the banks, they may be compelled to call in or restrict their advances because of pressure upon themselves; and in this case also the producer may be forced to place his stock on the market at unfavourable times. Without, therefore, ascribing any evil intent to the banks, the system of private credit does involve possibilities of this kind.

We have so far been considering the case of A, the cotton-grower; and we may take his case as typical of "extractive" industry—that is, industry which consists of the application of labour to "nature" for the extraction of the raw material of food or manufacture. We may draw from this discussion certain conclusions as to the relations between the credit system and agriculture in this country, and as to the desirability and practicability of State interference.

1. A system of credit is necessary if agriculture is to be carried on in the most efficient way.

2. Such credit, if applied strictly to productive purposes, does not increase prices to the consumer,

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but tends to lower prices through the increase in production.

3. Unrestrained credit may provoke competition among farmers for land and result in increased rents. This danger is eliminated under a system of "fair rents," which would itself be a necessary part of State ownership of land.

4. Certain classes of produce (e.g. wheat) necessary to the existence and security of the State may not be possible under a system of free industry when such produce is raised much more cheaply abroad. "Private credit" is not available in such case. Any system of protective tariff or minimum prices imposes an undue burden on the consumer. A system of State credit would afford the simplest method (short of State farming) of securing the cultivation of necessary but "uneconomic" crops at a minimum cost to the consumer.

5. Credit must not be subject to repayment at any date arbitrarily fixed by the credit giver, but at such times and under such conditions as best suit the circumstances of the particular industry. It is therefore a reasonable proposition that, under a system of State ownership of land (whether such ownership extends to the whole land of the country or not), a system of State credit is necessary to give security to the tenant and to assure full production; and it is free from the economic dangers which attend any credit system in manufacturing and distributive industry.

When we come to the relations of the credit system to manufacturing industry we find certain important differences from that considered above. It is less easy to measure the desirability, the practicability and

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the extent of a State credit system in the field of manufacture.

The necessity of some form of credit system is even more marked than in the case of agriculture. The amount of capital spent before its final return is greater; and as regards an important part of that capital the period between its outlay and its final return in the form of exchangeable wealth is much greater. The buildings, plant and machinery of a factory (what are called its *fixed* capital) are very expensive. Although the value is always in existence—it passes gradually from the building and plant into the manufactured produce—there is a very long period, amounting possibly to twenty years or more, during which much of that capital is in a non-exchangeable form and its value non-realizable. The manufacturer cannot pay for such plant out of its produce unless the provider of the plant is prepared to wait during this long period. Obviously very little advance could be made in such an industry if the plant had to be paid for out of the existing exchangeable wealth of the individual manufacturer; and a sound credit system is a fundamental necessity of such progress for the reasons already explained in the case of our cotton-grower.

Other of our manufacturer's capital is "turned over," i.e. reappears in the form of commodities, in much shorter periods. This raw material and the labour used upon it may appear as consumable goods in a few days or a few weeks. The amount of such capital (his *circulating* capital) is necessarily great; and credit is equally essential, although the time factor is less prominent.

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There is now one important distinction between industrial and agricultural "credit." In the latter case the credit is mainly used in processes directly applied to "nature"—largely in payment of labour. Its use can be controlled and restricted to that purpose; and normally the value so absorbed reappears in full in the exchange value of the crop. In the case of the manufacturer, much of the credit must be used in the purchase of raw material and of buildings and plant. There is no assignable limit to the extension of manufacturing enterprise; and a system of easy credit must tend to the multiplication of factories. As a consequence competition by manufacturers for raw material or plant will send up the price they have to pay for these things. Much of the value "expended" by the manufacturer, under such conditions, may not reappear in the exchange value of his product, since the excessive supply of particular manufactured articles will reduce their selling price below their cost of production.

To put this in clearer form. The cotton-grower has produced a crop which has cost him £1,000 (including his actual expenses of production and reasonable remuneration for himself). The manufacturer expends £1,000 in labour and other working expenses including reasonable remuneration for himself. The *normal* value of his product is £2,000. Under the pressure of competition, however, he pays £1,500 instead of £1,000 to the cotton-grower. The cost to him of his product is thus £2,500; whereas he possesses no power to enforce a similar increase in the sale price of his goods. The value (£2,500) expended by the manufacturer does not therefore reappear in the

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exchange value of his product. Assuming that the supply of such goods is not less than before (the conditions suggest an increase in the supply if the necessary raw material can be produced) the price the consumer is willing to give is not greater than before, and the exchange value of the goods does not rise above the £2,000. Five hundred pounds of the £2,500 expended by the manufacturer is merely handed by him to the cotton-grower. The bank (or the "supplier of the credit") risks heavy loss, part of the value which it has supplied in the form of credit not appearing in the produce of the manufacturer to whom alone it can look for repayment of its advances.

The actual process is, of course, more complicated than this; but, ignoring purely temporary disturbances in prices, demand, etc., the essential facts are as described.

The difficulty is that the "supplier of credit" cannot here (as he could much more easily in the case of the primary industry of agriculture) assure himself that the "value" he advances shall pass into the value of the produce. In practice the banker protects himself against this "speculative risk" by advancing only part of the value expended by the manufacturer, in most cases requiring also definite security. The efficiency of the credit institution depends upon the exactness with which this speculative risk can be measured. If credit is "timid," its advances are smaller than need be, and industry is contracted. If it is "rash," its advances are greater than they should be, and disaster follows. It is better that credit should err, if at all, on the side of timidity; but it is evident that industry is well served

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in proportion to the experience, the skill and the responsibility of the suppliers of credit.

What, then, are the relative merits of State and private banking in the field of manufacturing industry? There is some check upon the bank's tendency to make excessive advances (i.e. to create excessive credit, with the consequences set out above) in the fact that in the inevitable contraction (and possible collapse) that must follow any period of "speculative" prices the bank may itself suffer disaster in view of the limits of its resources. In theory the same check does not exist in the case of the State, with its "inexhaustible funds" (i.e. its unlimited power of creating legal tender); but in practice there is no reason why the check should not be established in the case of a State bank. It is a question of organization and definite allocation of funds. The argument against State banking in the past has no doubt been of very real weight; but the more exact methods of to-day, the greater publicity, the closer criticism to which State enterprise is now liable, deprive this argument of much of its earlier force. Such as it is, however, it may fairly be put as a point in favour of private banking.

On the other hand, the primary purpose of the private bank is private profit. In the early stages of a speculative period (traders and others are rushing in to share the expected profit and competition is driving up prices) there is a great demand for bank credit, and, as this means profitable business for the banks, their inevitable inclination is to advance such credit freely, thus stimulating the very speculative spirit which ought rather to be discouraged, and

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intensifying the danger at a later stage when the "cold fit" is coming on. When the period of collapse comes in sight the banks begin to withdraw the credit they had given at the earlier stage, and their effort at "self-preservation" may hasten the contraction and intensify the collapse, so much so, that the State may be forced to step in and use its own resources to save the community from possible widespread disaster.

The optimistic advance and the pessimistic contraction of credit of the banks are really inseparable cause and effect, and the inherent probability of such action in a purely profit-seeking credit system is a clear point against the system of private banking. This system causes, or at least accentuates, the undesirable and unhealthy alternations of excessive activity and excessive depression, which is so marked a feature of highly developed industry.

The difficulty largely arises, as we have seen, from the competition of manufacturers for raw material; and this difficulty cannot be avoided unless some control can be exercised over the prices of raw materials. In a self-contained State producing its own raw material some such control is in theory possible; but in the world market, so long as present conditions of industry exist in any important State, this control over the price of raw material is impossible.

It is obvious then that State banking cannot wholly remove this speculative danger so long as private industry exists. In the world market the State bank is a private bank. The most that could be claimed for it is that, with its greater potential

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resources and greater staying power, it might be able to do something to steady prices.

In attempting to define the limits of State banking we find substantial guidance in the principle that where an industry is vital to the community the State must act, or must be prepared to act, to safeguard the general interest, and that the State must not be limited to purely economic considerations. We have already attempted to classify industry according to this principle, and the test of a common principle applied to both industry and banking leads at once to the statement that where the State owns the industry it must also control the credit institutions on which that industry relies. These essential State industries may not be numerous, but they are of great magnitude, and their character is such that they furnish a solid and secure basis for any "credit institution" the State may establish.

It may be said that, owing to the absence of risk, special arrangements could be made with private banks, and that a State bank would not in the least be necessary. So far as mere "machinery" is concerned, this is no doubt true; and if all State industries banked with one private bank, and if the State side of that bank's operations could be kept quite distinct from the rest, the necessity of a State bank would be less urgent. But we should, in fact, have a State bank for all practical purposes, paying a private bank to undertake the necessary routine work and supply the required establishments. The operations of a bank cannot, however, be divided in that way; and the possession of the banking business of these vast State industries, backed as they must

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be by State credit, would mean an access of strength to private banking and a slackening of the economic restraint on the banks which would tend to make finance even more powerful than it is at present—a contingency which “small” industry will regard with no little apprehension.

In the case of “non-essential” productive industries there is no case for State banks as superior to private banks. There are arguments for and against, and these industries may be considered to be outside the *necessary* scope of State banking.

In the distributive industries—the buying and selling of things produced by others—the reasons against State banking in the case of manufacturers owing to the difficulty of controlling prices apply with greater force. This covers the whole of our import trade and most of our exports. The State bank in international business is in essence a private bank; and as most of our international trade must remain—at any rate for a long time to come—in private hands, so it is desirable that the financing of such trade should also be left in private hands. This, of course, does not mean that a State bank could not undertake such work. There is nothing in the science and practice of banking which is not within the competence of bank managers paid by the State equally with those paid by private corporations. But a bank must either support or discriminate against particular classes of industry, and there are vast fields of commercial and financial operations, ranging from the useful to the undesirable, from “legitimate business” to wild and dangerous speculation, in which the State could not safely exercise

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discrimination. The more socially objectionable features of such transactions are likely to disappear if the State controls the essential industries within its borders.

In the present stage of our industrial development, modified by the extensions of State enterprise suggested in these pages, we may say that a State bank (or some form of "public" credit) is essential to agriculture; that its activities must extend as the sphere of State industry widens; and that, although it is not essential in the very extensive field that will still remain to private enterprise, the existence of a State bank which the private trader or manufacturer may use as an alternative to the private banks may serve as a useful check on their monopolistic tendencies.

CHAPTER XVIII

FURTHER STATE ENTERPRISE

Monopoly at some Stage between Producer and Consumer—Shipping—Shipping Rings—Extent of Necessary State Service—Food: Wheat, Meat, etc.—Monopoly Associated with a Manufacturing Process—Housing—Industries Involving neither Necessity nor Monopoly—Luxuries and Variety Desirable—State Production Undesirable.

OUR third group of industries in order of urgency includes those whose products are necessary, but which do not involve monopoly in production owing to foreign supplies or alternative services, but which threaten monopoly at some point between the producer and the consumer. The mere fact of *necessity* does not call for State interference on purely economic grounds, since private enterprise may be relied upon to undertake any industry which will yield sufficient profit—and the *necessary* nature of the product will always ensure the desired profit, although even in these cases social or political circumstances may suggest the desirability of State action (e.g. home-grown wheat). But monopoly at any stage before the point of consumption may have much the same undesirable effects as monopoly in production.

The drastic check of complete State ownership is not, however, necessary in this class of industry;

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and, as our purpose is to indicate the extent to which State interference in industry is *necessary* as social development proceeds, we are mainly concerned with the minimum amount of State action that is essential to safeguard the vital interests of the community under any given set of circumstances.

The first typical industry in this group is *shipping*. This is a branch of the general problem of transport, but it differs from that of internal transport (railways) in that an alternative and competing service does not necessarily involve the colossal waste inseparable from duplicated railways. It differs further in the fact that, whereas foreign rails cannot compete with internal rails, foreign shipping can compete with native shipping unless the State restricts access to its ports—a step which deliberately deprives the country of a valuable and anti-monopolistic service. An adequate supply of ships conveying goods at reasonable rates is a very important factor in a healthy industrial system.

In theory anybody may build ships, and anybody may run them. In practice, however, the truth is very different. Tramp steamers which wander from port to port as freights offer we leave out of account for this purpose. They cannot exercise any effective check on freights, since they cannot profitably exist in numbers sufficient to offer an alternative service to the great regular lines. The exporter and importer need a *certain* service, and must therefore rely for the most part on ships which travel between definite ports at fixed times. They cannot trust to the chance presence of roving tramps, and are forced in the long run to use the regular services. Combination among

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the regular services leaves the trader, within substantial limits, at their mercy.

Capital does not compete from a love of competition, and sooner or later competition gives place to co-operation. This may take the form of complete amalgamation, or identity of control, or mere arrangements for maintaining prices and eliminating competition. The world of British industry is full of such "arrangements" between apparently competitive concerns.¹ Shipping has followed the course that all big industry has been forced to take. Attempts to destroy competitors by rate-cutting have generally ended by agreement to charge identical rates; and the success of such combinations has too often led to the charging of excessive rates.

No state which depends on foreign trade can afford to leave itself at the mercy of shipping rings; and when competition fails to secure reasonable rates and adequate service for its essential imports, it will be driven sooner or later to take steps to ensure such rates and service for itself. It is not necessary that it should "take over the industry." It will generally be sufficient if it runs a few ships of its own. The existence of those ships as a permanent though partial service will ordinarily be sufficient to keep freight rates within moderate limits. The threat inherent in even a small State line is too obvious to be rashly challenged.

The coastal service in this country is essentially a part of the general internal transport system, and should be so treated.

¹ See note on p. 192.

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FOOD

The *production* of food does not lend itself to monopoly. Wheat is grown in many countries and over vast areas, and no combination of capital can hope to control more than a relatively small proportion of the whole. The raising of cattle is similarly widespread. The diffused nature of these industries, together with the fact that individual production is not so hopelessly outweighed by mass production as is the case in factory industries, saves wheat and meat and other common foods from the direct control of the monopolist *at the point of production*. The monopolist is, however, a severely practical individual, and he does not waste his energy and his resources in going to the source of production *when he knows the produce must come to him*. The *growing* of wheat and the *raising* of cattle may be spread over a continent; but, however wide the area, however numerous the producers, however vast the product, *the whole must pass through the bottleneck of the distributive organization*. It is at this point that the monopolist makes his attack, and makes it with very considerable success. The meat trust is possibly the most striking illustration of this process of squeezing both producer and consumer. Controlling most of the facilities for preparing meat for the market, and working also through the banks upon whom the cattle-men depend for necessary advances against produce, the meat ring has not only been able to compel most producers to pass their cattle through its hands, but, within wide limits, to dictate the price the producers must accept.

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Meat thus becomes, to a substantial degree, a monopoly at this point in the distribution process, and the conditions under which it works in the case of the Chicago meat industry have been described with considerable candour by the commission of inquiry set up some time ago by the United States Government. *The "monopoly" is associated with a manufacturing process.* An attempt at monopoly on the part of mere middlemen, buying up the produce and holding it for a "rise," could not succeed as a permanent operation. Public opinion would be more easily outraged, just as the brigandage would be more obvious, and competitive capital would certainly not stand idly by and see so vast a stream of appropriated wealth flowing ceaselessly into the lap of the spoilers.

Wheat is somewhat less easy to "monopolize" than cattle, and attempts to "corner" wheat on the market have never met with any but very limited and momentary success. But wheat also has to pass more than one point where capital is aggregated, and it is at the grain elevator and in the milling industry that we must expect to find the would-be monopolist at work. To what extent these agencies have seized their opportunity to buy cheaply and sell dearly is difficult to say. The general trend of business organization is sufficient to assure us that by means of price arrangements or by other appropriate methods this opportunity is not now and will not in future be allowed to slip.

Where it is necessary or desirable for the State to act in defence of the common interest, it can do so most easily and effectively at these monopoly

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points. It may do so by erecting its own grain elevators or its own mills, or by controlling the price and checking the operations of private undertakings of that kind. If that course is taken we may expect "brigand" capital to step in at some other point for the purpose of controlling production or distribution, and the State may in consequence be driven to yet further interference to protect the food supply of the people.

In the case of a country like England, which depends so greatly upon imported food, a serious complexity arises from the fact that the monopoly point may lie in some other State. Naturally enough, the British Government cannot interfere with the American meat trust. It cannot control prices by fixing the price at the port of entry. That would be the worst possible method of approaching the question. It might itself purchase in bulk, and possibly secure some small benefit that way. Its safest and surest course, however, would appear to be the establishment of alternative supplies, and this could most easily be done by working through British companies in which the Government held a controlling interest.

As already suggested, political circumstances may compel a State to act, or at least point to the strong desirability of such action, when from purely economic reasons such action is not called for. A densely peopled island State may regard extreme dependence on imported food as a danger to its security, and may decide to increase its home supplies of certain things even at an "economic" loss. It is not necessary to pursue that here; it lies outside the

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scope of our present subject. The only security is doubtless international friendship; but if, for good reason or for bad, action to increase home supplies *for that purpose* is taken, the economic loss, if any, must be regarded as part of the cost of national defence.

HOUSING

The economic problem of housing is in some respects much like that described in relation to food. There can be no private monopoly in houses themselves (the product in its final form). There can be no private monopoly in the raw material in its natural state. But there may be a substantial measure of monopoly at some point between these two stages. We have heard much in recent months of price arrangements, rings and combinations in cement, bricks and a great variety of other things commonly grouped under the head of builders' supplies.

Until formal inquiry has been made into the operations of these industries, the exact weight which these "arrangements" place upon the shoulders of the community in the shape of dearer houses cannot be stated; but there is little doubt that the abnormal demand for building material which has followed the cessation of the War has given an opportunity to demand excessive prices, which private industry has been quick to seize. In pre-War times this evil had not reached a serious point; but the process of combination ("conspiracy" might more truly describe all these methods of fleecing the consumer) was even then well forward, and, as in all other important industries, it is destined to become

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more and more complete and effective unless the State steps in.

Quite apart from this aspect of the question, one is bound to admit that private enterprise has been a failure from the point of view of the community. The slums, the congestion in our great cities, the ill-planned towns, the absence of houses in the rural districts, the wasteful and antiquated appliances in the houses themselves, are evidence enough of that. The common boast that private enterprise is the true source of improvement makes a very poor case in the sphere of British housing, and may be justly condemned on that ground. Slums, congestion, and the absence of houses where required are not fairly to be included in the count against the private builder. He does not build slums, nor does he build houses where he is not paid to build them. These evils must be laid to the charge of the whole system which has regarded individual profit-seeking as the key to national well-being.

The public ownership of land, both in its control over the site and over the raw material of building, will do much to solve this difficulty; while an alternative service may help to enforce reasonable prices for private work. The national need—decent houses for the workers—may in time be wholly supplied by the co-operation of local authorities and Labour without the intervention of private builders. Recent events appear to point to that as the direction of future development.

Further instances of industries falling within this third group might be given, but it must suffice to

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regard those already mentioned as typical examples. The contents of the different classes suggested will vary with each country, and, as time goes on, in the same State. It would probably not be far from the truth to suggest that modern civilization, as we know it in the West, is characterized by the steady drift of industries up through these various groups, and the degree of progress made in any country may be measured by the extent to which this change has taken place.

Our fourth and last class includes all of those industries which involve neither necessity nor monopoly. At our present stage of development it embraces a large proportion of our manufacturing and trading enterprises.

It is for the time being neither necessary nor desirable that the State should interfere in these activities. Luxuries should be within reach of all as far as the circumstances of the community permit. Luxury, however, from its very nature involves choice and selection. Such expenditure, to give its fullest satisfaction, must be voluntarily made by the individual to gratify his personal taste or inclination, and, provided the necessities of the people are supplied, diversity of taste is a thing to be encouraged rather than suppressed. State production is not well fitted to serve this object. The catering for a varied and varying public taste is a speculative enterprise which the State would not undertake; and if it did so it would tend to rigid forms, which could hardly fail to react on the mentality of the people. It is difficult to say how much the mental activity and the inventive faculty of a community are due to

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variety in their surroundings. But its influence must be considerable, and it can hardly be doubted that a monotonous environment makes a dull mind. Those who seek to remove the evils incident in our present system do so not least that they may add to the joy of the whole community. Joy is, however, self-expression, an outpouring of the inner nature, and therefore as varied in its forms as human nature itself. A single hue may appropriately express grief, but all the colours of the rainbow are inadequate to express the exuberant joy of the multitude.

There is, however, no hard and fast line between luxuries and necessities. That line is continually shifting, and the luxury of to-day may be the necessity of to-morrow. It is conceivable that such things may be held from the many, or sold at extravagant prices by the arrangements of private enterprise; but even then the State had best keep out of it. It is in the public interest that the people should be encouraged to seek pleasures which involve little or no expense. With the State, as with the individual, the true measure of its happiness is the paucity of its wants, and not the magnitude of its desires.

In the foregoing brief description of State activities no attempt is made to circumscribe those activities in any way, or to suggest what a State can or cannot do. Our purpose has merely been to note those industries which modern States will be *compelled* to undertake if the present line of development continues unchanged, and which are most urgent as correctives of the ills which arise from a system of unrestricted competition. These industries may be taken over

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by the State in a different order from that suggested owing to the varying conditions which exist throughout the world, the opportunities that arise, the particular policy of rulers, or perhaps the local irritation caused by this or that private undertaking. The variety of existing State activities in the world of industry is bewildering. It would, indeed, be difficult to mention any industry which is not carried on by the State in some part of the world. The student cannot do better than turn to "The State in Business" (Emil Davies) for evidence on this point. It is an extremely valuable summary of community enterprises in a great variety of conditions, and brings home with vivid force the fact that the world is already past the experimental stage of public ownership in all those industries which concern most closely the happiness and well-being of the people.

Nevertheless, this country would be wise not to proceed in this direction too hastily. The transfer of an important industry to the State is a great undertaking, and the complexity of modern life is such that a mistake may react seriously on the general welfare. The thorough reorganization of the two or three most important industries included in the second class in order of urgency will keep our best brains busy for years to come, and it would be unwise to proceed farther (except in case of proved emergency) until those great tasks have been undertaken and successfully accomplished.

Note.—In using the term Nationalization or State Ownership no particular method of organization is implied, but solely the substitution of community interest for private interest.

CHAPTER XIX

DISTRIBUTION

The National Dividend : How made up : How Distributed—General Character of Expenditure of each Class—Economic Importance of Maximum Production—Real Wages of the Mass of Workers Limited to Cost of Subsistence—Varying Standards of Living—Futility of Increased Production and Increased Money Wages if Production of Things Consumed by the Mass not Increased—Factors in the Problem of Distribution—Wages : a Cost of Production or a Share in the National Dividend—National Minimum Wage—Progressive Extension of the Area of Common Rates of Wages and Conditions of Labour—Closer Association of Allied Industries—National Uniformity of Rates and Conditions Impossible under Private Competitive Industry in Certain Cases—National Uniformity of Rates for Similar Labour—Socially Justifiable Relationship between Rates for Different Grades of Labour—Real Wages a Distribution of the National Dividend—Stronger Sections may Improve their Real Wages at the Expense of Weaker Sections—Wages should be Determined by a Central Body representing the Whole of the Workers.

THE practical problems involved in the general question of Distribution are not less important—in some ways they are much more important—than those connected with production. In estimating the social value of any industrial system, we are concerned not only with the influence of the particular system on the *quantity* of things produced, but also with the *character* of the things produced and the degree in

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which those things are distributed throughout the community.

It has been commonly urged that the system of private enterprise, with its direct appeal to individual self-interest, stimulates production. This claim is open to serious criticism; but, without pursuing that point farther, one may ask what has been the effect of private enterprise in the sphere of distribution, and whether the influence of self-interest in that field has not more than balanced any assumed advantage on the side of production. Very little is heard on this aspect of the question, and the comparative silence of economists in this respect suggests that most recognize that in the field of distribution private enterprise has consequences which its most optimistic supporter would find difficult to defend.

The quantity of production (or for our present purpose the total produce divisible among the members of the community—the national dividend) is the sum of

- (1) The things produced by labour and capital at home.
- (2) The things received from abroad by way of interest on investments, payment for services (shipping, etc.), and so on.

This total divisible product is distributed among the community through the medium of

- (1) Wages to productive labour.
- (2) Profits (including interest on capital).
- (3) Rents of land.
- (4) Wages of unproductive labour.

The relative proportions of the "common stock" taken by these classes will determine the general

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character of future production. The amount which goes in wages to labour will normally be entirely spent in maintaining the average Standard of Living of the class. The considerable variety in the amount of wages received by individuals or sections will give to some a spending power exceeding their "class standard of living," and this excess may be "wasted" or "saved," according to their habits or traditions. But, broadly speaking, wages of labour will go in "living expenses," i.e. in food and clothing and such simple luxuries as fall within their "Class Standard of Living."

Profits and rents are spent, like wages, in maintaining the class standard. Where these amounts are large compared with the numbers who enjoy them, this class standard is likely to become more luxurious, and a growing surplus may be used as productive capital, increasing the future aggregate production of the community.

We have here a very tangled problem.

It is obvious that the harder labour works, the more reproductive capital there is, the smaller the number of idlers or unproductive workers, the greater will be the total production which falls for division among the different classes of the community; and, so far as social well-being is measured in economic terms, we ought to aim at a system which would achieve these results. These results, however, cannot be reached under a system of uncontrolled private enterprise inspired by a dominant self-interest.

As has been already pointed out, the mass of labour under the competitive system *cannot* receive more in *real* wages than the amount needed for their

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subsistence at what is currently regarded as the minimum standard of living. Some may get more, many will get less; but, taken as whole, this statement is true. The *real* wages of labour depend upon the available quantity of the things *consumed by labour* and the purchasing power in the hands of labour. The "demand" of labour is measured by its total purchasing power, i.e. its wages. Unless the labourer can satisfy his "needs" by an expenditure less than his total wages, he will be compelled to increase his expenditure up to his wage limit. If, therefore, the available quantity of the things consumed by labour does not exceed the amount that labour desires (and *normally* it does not exceed this amount), competition will so increase the price of these things that the lowest rank of labour will be compelled to expend its whole wage in supplying its bare necessities, and the higher ranks their whole wage in supplying the customary necessities of their grade.

If this be true—and in spite of local variations in a continually shifting medium, its substantial truth is unquestionable—labour *as a whole* can reap no permanent reward by merely working harder. The excess production passes into the hands of the receivers of rent and profit. Much of this excess is devoted to a luxurious standard of living, i.e. to the production and consumption of things not of the kind consumed by the mass of labour. As a consequence the proportion of labour devoted to the production of things which enter into the standard of living of the mass of the people is diminished, while at the same time the demand on this restricted

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supply of "common necessities" is increased by the army of "retainers" maintained by the wealthy class.

The increase in productive capital, which the unequal distribution of wealth facilitates, is of very doubtful benefit to the mass of the people, if the main result is to leave them at the margin of subsistence and to increase the number of able-bodied men and women employed to supply the luxuries of the well-to-do or in their personal service. It has often been remarked that the vast increase in the productive power of this country due to the introduction of machinery has had little or no effect in improving the lot of the great mass of the workers. Social inquiries show the substantial truth of this, and the main cause appears to be the *character* of the production and distribution induced by private enterprise as outlined above.

So long as this state of things exists it is hopeless to expect labour voluntarily to work harder. Labour is far more likely to devote its energy to secure for itself a larger share of existing production than to labour to produce more. The irony of the thing is that, however much they strive, and however successfully in appearance, to secure this larger share, so long as the workers receive their share in *money wages* and have no control over prices or *power to enforce the increased production of "common needs,"* their striving is largely futile. Its effect is not to secure a larger supply of "common needs" for the workers as a whole, but to render still more unequal the division among them of the existing supply.

The problem of distribution cannot be attacked with any chance of success at one point only. It

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is useless to increase wages if prices are likewise increased. It is useless to control prices if the supply of goods is not forthcoming. Each independent factor in the system must be controlled if the result is to be an effective change in the present distribution of the national dividend.

WAGES

This is by far the most important of the factors in the system of distribution. It offers on the whole the most difficult problem, but a problem the solution of which would go a long way to settle the whole of our social-industrial troubles.

Under a system of competitive private enterprise the wage of labour is primarily a *cost of production*, and is only remotely regarded, if at all, as a formal method of distributing the final product. As a consequence the wage of labour is the smallest that the employer can impose and labour is willing to accept under the influence of a competitive system and a varying bargaining power. In the event the normal wage of labour tends to be the sum which represents the minimum standard of living of the particular class. Where labour is unskilled and economically helpless (the supply of such labour normally exceeds the demand in individually organized industry) the wage will tend to be the smallest on which life itself can be maintained. Where labour is skilled or organized, and so possesses a better bargaining power, its wage will represent a higher standard. Moreover, where the employer enjoys exceptional opportunities of profit his need of labour is pressing, and labour may possibly secure for itself (individu-

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ally) some small part of this exceptional profit. Wages may vary within relatively narrow limits according to the exchange value of the product; but in no real sense has the wage of labour (except in rare instances) been regarded as a share of the final product or definitely measured by reference to the exchange value of the product.

Another point of view—and the only one which offers a satisfactory issue—is that productive labour is service rendered to the community, and that its remuneration should be determined not as a result of a struggle between private employers and labour, nor by reference to the exchange value of the *particular* product, but *by reference to the total national dividend*, in the creation of which labour, *as labour*, plays so preponderant a part.

The practical recognition of the national point of view has not proceeded far, although the demand for a *national minimum wage* involves this principle in some measure. The full recognition of this principle—which it rests mainly with labour to assert—implies so far-reaching a change in the individual outlook, so great an alteration in our common standards of value, that it would be folly to seek to achieve more than the next effective step in that direction. The opportunity of such a step lies in the extension of the field of public ownership; and it is not too much to say that the success of public ownership must in the long run depend upon the adoption by the workers in the various national industries of this principle of community service as the basis of their remuneration.

The most important phenomenon in the wage

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system during the past half century has been the increasing areas over which are enforced uniform rates of pay for similar work. This has been entirely the result of trade unionism. Combination to secure higher wages or better conditions of work were inevitably confined at first to common action among the workers in the same locality. The power and the disposition to unite in common *voluntary* action must, from its very nature, develop locally before it can develop nationally. Trade unions were consequently, in their early days, local organizations, and the rates and conditions they could secure applied only to the area in which they worked.

Amalgamations of small unions into combinations covering ever wider areas followed, and brought in their train a growing uniformity (though not necessarily a general equality) of wages and conditions.

In the more important industries these amalgamations have covered the whole country, sometimes as federations of partially independent district organizations, sometimes as single national unions. Concurrently with this movement there has proceeded a striking increase in the numbers enrolled in these labour organizations.

The next step was the co-operation of the organizations representing distinct trades. The intimate connexion between different industries in our complex system is leading inevitably to the displacement of the common conception of different industries by the common conception of a *national industry*, comprising parts whose individual functions differ widely, but forming an indivisible and organic whole.

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This sense of a growing identity of interest has already led to the "Triple Alliance," and is destined to lead in the future to an even closer union of the labour organizations of the country.

No union can hope to live if its common strength is used to maintain or secure privileges or advantages to sections of its members not shared by the others. The "national" union, therefore, very naturally opens up the question "Why should its members in different parts of the country enjoy different Standards of Living if they are performing the same kind of work?" A common Standard of Living for like "grades" of work is therefore an inevitable outcome of the nation-wide union, and this movement forms a definite step in the direction of the principle of community service as the basis of remuneration.

Where the "costs of production" of any particular article are broadly uniform throughout the country or in the areas in which the industries in question have concentrated, this national uniformity in wage rates is possible under the system of private enterprise—if the labour organization is strong enough to impose it. Those industries lend themselves to this most easily in which large aggregates of capital are used, and which draw their raw material from a common source—the world market. But there are certain industries in which this national uniformity of wages and conditions is impossible under private enterprise except at a cost to the community, a distortion of its common life, and an ill-distribution of its total wealth, which the community may reasonably decline to bear. This applies to all extractive industries in which the cost of production per unit

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of produce inevitably varies according to the character and situation of the natural resources exploited.

One of the most striking illustrations of this fact is to be found in the coal industry. The difficulty of producing coal varies very greatly in different parts. Some seams are thicker, lie nearer the surface, are better situated as regards transport. Some mines are freer from water and gas than others. As a consequence the coal, when produced and ready for sale, has cost very varying amounts—but one market price governs all coal of like quality, whatever the coal may have cost.

Suppose the cost of producing coal at a poor mine is forty shillings a ton, and of similar coal at a good mine twenty shillings a ton. If the poor mine is to continue under the present system the price of coal must yield a profit over and above the forty shillings; and as this price applies to all similar coal the good mine gets the same, and therefore secures a net profit of twenty shillings a ton more than is necessary to yield a fair return on its outlay. The effect of such a price on our other industries has been referred to elsewhere. It is obvious that in a competitive market the owner of the poor mine may have difficulty in selling his coal at a profit, and must therefore cut down his expenses. He cannot cut down the cost of transport, of pit props, of plant and appliances generally, *but he can cut down wages*. A condition of the existence of many poor mines under the competitive system must be the payment of a lower rate of wages than exists in the richer mines.

The claim of the mine owner is perfectly sound

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so long as the system of unrestricted private ownership is accepted. "Wages," he says, "are a cost of production, and the exchange value of the coal produced being (unfortunately) only thirty shillings, my costs of production cannot exceed that figure, or I must close down."

The coal worker replies, "Why should two men, doing the same kind of work and expending the same amount of energy, receive widely differing rates of pay? If the produce is necessary to the community, the coal miner's labour is a service to the community which can only be measured by the labour expended. Nationally useful labour is entitled to receive a share of the total national dividend."

Or the coal worker might take up the intermediate view and say, "Wages may be a cost of production. If so, then you must take labour *in the mass* (and not individually) and regard its wages as a cost of producing the *whole* of the produce." In either case the industry must be treated as one and indivisible so far as wages of labour are concerned.

Between these two positions there is no possible compromise. Wages must be uniform over the whole industry, or they must vary according to local conditions. If the latter view succeeds, then, inevitably, the movement under which labour organizations are ceasing to be local and becoming national in scope will be set back, "national" unions in this class of industry will be broken up, labour organizations will be forced back to their local character, and the sense of community interest and community responsibility will be so much weakened.

On the other hand, if the former view prevails,

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that evolutionary process which has marked man's advance from the "isolated individual" to the "social being" will be strengthened, the development of the State as an organic structure will be assisted, the sense of social justice and the willingness to make individual sacrifice in the common interest will be stimulated, and finally—and in some respects this is the most important point—a definite step forward will have been made towards the recognition of wages as a share of the "national dividend" (without which national unity can never be more than an empty phrase).

This process of unifying the basis of remuneration of labour cannot stop there. It must, both for theoretical and practical reasons, extend in two directions :

(1) *Horizontally*, by extending the common basis to a group or groups of industries.

(2) *Vertically*, by establishing a *socially justifiable* relationship between the varying remuneration of different "grades" of labour.

Let us consider the first of these.

The coal-mining industry must be unified. How is the aggregate remuneration of coal-workers to be determined? At present the coal-worker's wage is based broadly upon the pre-war wage, the increase in general prices, and the "profits" of the industry. So far as this method tends to the maintenance of a uniform and reasonable standard of living it may be regarded as roughly justified. So far, however, as it is fixed with reference to coal-owner's profits, the miner's wage *may* be raised at the expense of other classes of workers.

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The *real* wage of a worker is represented, not by the money in which it is expressed, but by the share of the national dividend (i.e. total national *production*) it brings to him. For reasons which have already been given, only that part of the total national production which appears finally in the form of commodities consumed by the mass of the workers comes into account in estimating the *real* wage of the worker, e.g. food, clothing, housing and the minor luxuries. Unless this total production is increased, the aggregate of *real* wages divisible among the workers cannot increase, and as a consequence, if any section of the workers receives an increase in money wages greater than the increase received by other workers, they obtain command over a larger share of the national dividend, and *the other workers receive a smaller share*. To put this in clearer form: Suppose the "national dividend" available for division among the workers consists of 1,000 loaves of bread, and there are two classes of workers, one of which receives in the aggregate £30 in money and the other class £20 in money. Each £1 then represents 20 loaves, and the classes receive 600 and 400 loaves respectively. Now let the wage of the first class go up to £50, and of the second to £25. Then £75 is the money measure of the 1,000 loaves. The two classes now divide the national dividend in the ratio of £50 and £25, or 666 loaves and 333 loaves. Thus, although both classes receive increases in *money* wages, the first class alone receives an increase in its *real* wages, and *receives that increase at the expense of the second class*. The coal-miner (or any other class of worker) who obtains, as a result of

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his stronger organization, a greater *relative* increase than other classes, will get that increase partly at the *real* expense of those others, *unless the total national production available for distribution among the workers has also increased in like proportion.*

Now let us turn back to the question of the wages of the workers in *allied* industries. We may have such a series of industries as this: The coal-miner, the iron-miner, the maker of pig-iron, the steel-maker, the agricultural machine maker, the farm labourer, and the *final* product—wheat. Although the labour of each is distinct, yet the labour of all is sunk in the *one final product*, and it is *out of this final product* (so many tons of wheat) that the *real* wage of the whole series of workers has to come. If their *real* wage exceeds this, then they are taking part of the product of other men's labour and giving nothing in return. If their *real* wage does not exceed this, then the share which each worker can get is measured by the amount of his *money* wage compared with the money wage of the other workers helping to produce this wheat.

Thus, if the coal-miner gets twice as much wages as the farm labourer he can command twice as much wheat (their common product) as the farm labourer. If the total amount of wheat is not increased, then it does not matter how much the individual wage is increased *if all are increased in the same proportion.* Each will get just the same quantity of wheat as before, and each will have to give so much more in money for it—i.e. the only effect is a rise in the price of wheat, which affects each worker in the same way.

If, however, the coal-miner can get a larger pro-

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portional increase in his wage than the farm labourer, then in the division of the wheat he gets more than before *and the farm labourer less*.

Things are, of course, not so simple in real life; but, put in this way, we see the essential truth that the aggregate wage of the workers cannot exceed their aggregate production, and that the share of their joint production which falls to them will be divided among them in proportion to the money wages they receive.

If we once recognize that the *real* wages of the workers are their share of the "national dividend," we are forced to the conclusion that no just distribution of this national dividend can take place unless the fixing of the money wage is regarded as a problem vitally affecting the *whole*. Although these reasons may not be clearly apprehended everywhere, the truth is felt instinctively, and the demand for a national minimum wage is a definite step in the right direction.

Thus we see two parallel movements in connexion with wages: one in the world of ideas and one in the world of fact. The first shows a steady progress from the conception of the individual wage as a cost of individual production through varying stages to the conception of wages as the workers' share in the total national production. In the second we see a corresponding progress from individual bargaining to the demand of the local industry for uniform rates of pay, and from that onwards (as in the case of coal) to the demand of the national industry for uniform rates. We shall see the grouping of allied industries (when each is sufficiently organized) for common action and *definitely related* rates, and in

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due course the recognition of a national rate which will form the basis of the particular rates in each class of work. The determination of these rates will need some common machinery, and, if they are to be accepted by the workers generally, *they must be self-imposed*; that is, the common machinery must be a central body on which the whole mass of the *workers* of the country of every grade (who are themselves the bulk of the consumers) exercises a dominant voice. A condition of success is that the workers should be fully inspired with the fact that the remuneration of all, and the provision for the maintenance of the industrial machine and the State organization must come out of the aggregate national production.

The second point suggested on page 247 is the ultimate and necessary establishment of a *socially justifiable* relationship between the varying remuneration of different grades of labour.

The formal recognition of this as a practical principle may require a considerable advance in the general conception of "common interest," but as an abstract proposition it has long been admitted. The statement that "the State should require from each according to his ability and each should receive according to his needs" goes indeed beyond the suggestion conveyed in the words "socially justifiable relationship," and may be regarded as an ultra-refinement of an idea, of which the latter words are a practical expression. It is probable, however, that this modification in the wage system will be brought about by the logic of facts rather than by the logic of ideas. Provided the remuneration of the worker

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is regarded as his fair share of the total national production, and that each worker is entitled at least to a certain minimum standard of living, the amount that can be divided among those who receive more than that minimum rate is manifestly limited according to the sum of the total national production. A low minimum standard relative to the total production may leave room for wide ranges of remuneration above the lowest paid grade of labour. But the tendency must be, as the conception of national unity ripens, to make the standard of life of the mass of the workers as high as possible; and "as high as possible" for the mass means "as small a surplus as possible" for division among those more favourably treated than the mass.

At the present time the attempt by great bodies of workers to obtain a standard of living above that enjoyed before the war does (so far as it is successful) tend to reduce the "surplus" available for others, since the total national production makes it *impossible* at present for every citizen to enjoy an *improved* standard of living. The struggle of other classes (whether wage or salary or profit receivers) to improve their standards likewise, however, cannot succeed (other than by an increase in the total national production), and the effect of the struggle must be to reduce the more helpless sections of the community to an even worse position than before.

Let us take a simple illustration. A community of 100 people before the war had a total production of 1,000 loaves. Their *money* income was 60 at 8s. and 40 at 13s. They received in all 1,000 shillings, and their total divisible production was 1,000 loaves.

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Loaves were therefore one shilling each, and the two standards of living were represented by 8 loaves and 13 loaves respectively.

After the war the total production falls to 800 loaves, and now, if they receive the same *money* income as before, 1,000 shillings purchases 800 loaves—the price of the loaf goes up to fifteen pence. The standard of living of each class is therefore reduced in the same proportion, and stands at $6\frac{2}{3}$ loaves and $10\frac{2}{3}$ loaves.

The first class says, "We will have a standard of 8 loaves, as we had before the war, and we claim an increase in our wages to 10s." (i.e. 8 loaves at 1s. 3d.). But if they secure their 8 loaves (i.e. 480 loaves altogether) there are left only 320 loaves for the second class, giving them a standard of living at 8 loaves each instead of their pre-war 13 loaves.

In their turn the second class says, "We will have our pre-war standard, and we claim an increase in our incomes to 16s. 3d. (i.e. 13 loaves at 1s. 3d.). But there are only 800 loaves being produced, and they cannot *all* have as many as before the war. There are now 100 people trying to purchase the loaves. They have between them incomes amounting to 60 at 10s. and 40 at 16s. 3d., i.e. 1,250 shillings. They have to give this for the 800 loaves. In other words, the price of the loaf goes up to 1s. $6\frac{3}{4}$ d., and each class finds that in spite of all its struggle for higher wages its standard of living has still fallen to $6\frac{2}{3}$ and $10\frac{2}{3}$ loaves respectively.

The struggle goes on. Higher wages are demanded and paid (in paper money), and the only result is a still higher price for the loaf, but no im-

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provement in the reduced standard of living. Neither class can get more than this reduced number of loaves *unless the other class gets less* (so long as the total national production does not exceed the 800 loaves).

If the distribution of the total national production is to be made on the principle of pigs at a trough, in which the stronger can shoulder the weaker out of the way, the better organized sections of the people may increase their share, *but they do so at the expense of their weaker fellows*. If the division is on the principle of a family at table, the less fortunate members will have their standard maintained in spite of the reduced total, and this can only be done *by voluntary sacrifice on the part of their stronger brothers*.

Thus we see the futility of the post-War race of wages to overtake prices, and also the fact that even in normal times the standard of the poorer or weaker sections of the community can only be maintained or improved if the stronger or better organized sections determine that it shall be so, and restrict their own demands accordingly.

What that minimum standard should be, and what increase over that standard should be received by different sections is outside our present discussion. Some work is harder than others, some more disagreeable, some more dangerous; some requires greater natural ability, some longer training; some involves great responsibility and some very little. The "socially justifiable relationship" between these different standards of remuneration is a matter best determined by the representatives of labour generally. Any decision arrived at in any other way will be

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regarded by some as imposed upon them by force, to be rejected by them as soon as their strength is equal to the task.

Note.—The problem of Unemployment has not been specifically dealt with here. That subject calls for a separate volume. It may, however, be suggested that the conception of remuneration as a share of the total National Dividend is more consistent with a national solution of the unemployment question than the general view of wages as a cost of production.

CHAPTER XX

PROFITS

Profits—Excessive Individual Incomes—Non-essential Industries may remain in Private Hands—Limit of State Interference—Excessive Profits Provoke Wage Demands and Lead to Inequality among the Workers—Limitation of Profits Necessary—Taxation for that Purpose—Non-productive Labour; Discouragement Desirable—Character of Production—The Standard of Value—Nature of Desire : its Varying Character—Pleasure of Contemplation and of Acquisition; Need to Promote the Former and Discourage the Latter—Education.

NEXT to wages profits form the most important medium of distribution of the national dividend. If we take the year 1913-14—to avoid the disturbance of the war period—we find that about 250,000 persons, making over £160 a year working "single-handed," received roughly £100,000,000 profit; 48,000 firms making over £160 a year each firm, received £90,000,000; and 50,000 public companies about £300,000,000. There is evidently a large number of persons who receive in the form of profits sums considerably in excess of the average standard of living. Many of these receive individually moderate incomes only, but it is probably correct to say that as much as £250,000,000 was received as income by some 50,000 persons over and above £1,000 a

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year each, and of these large incomes a considerable proportion was drawn from the "profits" mentioned.

At first sight it would appear that here we have a very unequal distribution of the "national dividend," and that 50,000 persons receive at least £250,000,000 which ought fairly to have fallen to the share of the poorer section of the community. We cannot use that assumption as the basis of action until we are reasonably sure that the £250,000,000 will be there when we come to divide it. Private enterprise may lay these golden eggs—but will not necessarily lay them to order.

The area of this problem will be considerably narrowed if and when the State becomes the owner of the land and the vital industries referred to in an earlier part of this book. There will, however, still remain a wide range of industries in private hands which involve much capital and some millions of workers. Any action, however attractive in theory, which deprived the owners of these undertakings of their inducement to continue, or deprived the industries themselves of the benefit of the directive enterprise of their owners, would result in great social disorganization and inevitable loss to the workers themselves.

The world is not ripe for the expropriation of *all* private capital, and the social evil resulting from the receipt by a small section of an excessive share of the national dividend must be dealt with in some other way. Interference in the case of those enterprises which remain in private hands should not go farther than is necessary to remove, or at least

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mitigate, the more obvious evils that may arise from "excessive" profits.

The first "evil" arises in connexion with Labour. It has become evident enough in the past few years that "Labour requires a fuller share of the wealth it creates," and it is not unnatural that the individual worker should base his claim upon the "profits" made in his own particular industry. We may anticipate that whenever "unreasonable" profits are made in any industry the workers will insist upon a share. The various proposals in connexion with co-partnership are merely an anticipation of that demand. This co-sharing of *excessive* profits is, however, extremely objectionable, among other reasons because payment by reference to individual profits destroys the conception of a national dividend and leads to inequality among the workers; and as these "excessive profits" will arise in private undertakings only (since national concerns will not be worked with the object of making maximum profits), this inequality in favour of workers in private undertakings will be a source of unrest among the national employees.

Then, what is an "excessive" profit? Where a man by his own powers of invention has lessened the costs of production and is allowed to retain the advantage of that invention *for a limited period*, his greater profits during that period are a reward for his service. They do not increase the cost of the article to the consumer, but assure a definite decrease in the cost at the end of the period of reward. Whether that system of rewarding inventions is desirable or not, profits acquired under such conditions could not reasonably be regarded as *excessive*, nor

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is it likely that their existence for a brief period would lead to demands for higher wages.

On the other hand, profit which is abnormally great because the capitalist possesses a partial monopoly and uses his power to increase prices to the consumer, would fairly enough be regarded as excessive, and would provoke wage demands which, in the common interest, should be avoided. Profits of that character should, therefore, in some way or other, be curtailed. That result could be achieved by limiting prices or by some form of taxation which would tend to limit profits without destroying the incentive to produce.

The first method, a limitation of prices, is objectionable (except as to articles of common necessity, the position of which in the State economy has already been considered). So long as the articles concerned are not of the nature of necessities, an excessive price will defeat its own end either by reducing demand or by bringing competitors into the field. In the case of "wasteful" luxuries there is little point in limiting prices and enabling the wealthy classes to obtain those luxuries more cheaply. The check on prices is best left to the action of competition, and the check on production to taxation of the income of the would-be purchasers.

A remedy may, however, be found in some form of limitation of profits by means of special taxation. Such a tax might take this form: Where (after allowing reasonable remuneration for wages of superintendence) the profits exceed fifteen per cent. on the actual capital cost of the assets, a tax shall be imposed on profits equal to one-tenth of one per cent. on the first

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one per cent. above fifteen, two-tenths of one per cent. on the one per cent. above sixteen, and so on until ten-tenths (or the whole is taken) over twenty-four per cent., the deficiency below fifteen per cent. in any year being deducted from succeeding profits. The maximum profit possible is thus about twenty per cent. as a yearly average. Such a limit would not act as a deterrent to any but the wildest speculative undertakings, and a definite limitation of that sort, if rigidly applied, would obviate the disturbing effect on labour of excessive rates of profit. Taxation of this kind would remedy the particular trouble *at this point*.

This proposal modifies, but does not remove, the "social evil" inherent in a distribution of the national dividend which leaves vast spending power (or command over labour) in the hands of individuals. The employment of ten able-bodied citizens to wait upon one or two is not a desirable state of things, since they are consumers without being also producers. A somewhat similar objection may be alleged to the expenditure of personal income on luxuries, seeing that the producers of these luxuries are consumers of the "common necessities" without themselves adding anything to the common stock of such necessities. This feature of personal expenditure is not to be effectively checked by direct taxes on the luxuries purchased (except perhaps in the case of domestic servants, in which a substantial tax might conceivably be levied on the number employed in excess of one or two). So long as private enterprise continues, *and one of the rewards or inducements is the satisfaction of luxurious tastes*, it is useless to

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forbid the enjoyment of such luxuries. What is left of the income after the application of a graduated tax should be at the free disposal of its possessor.

Large incomes, however, are not wholly spent in luxurious living. Much is reinvested as productive capital, and the inclination to apply income in that way should be strengthened as far as possible without interfering with the liberty of disposal of the income receiver. Taxation may help here also. A moderate flat rate should be charged on all business profits after deducting the limiting tax mentioned on page 259, and a personal tax should then be levied on all profits drawn out. No practical difficulty would be found in modifying the existing income tax in this way, and the effect would undoubtedly be to encourage saving and discourage excessive non-productive expenditure.

Involved in this question of distribution is another, to which some reference has already been made—the character of production. The standard of living of the mass of the people depends not upon their nominal wages, but upon the quantity of things produced *which they commonly consume* (including in production the goods imported). During and since the war it has been found that mere increases in nominal wages are useless if the supply of goods is inadequate, and that it is necessary to offer special inducements (or even use compulsion) to increase the supply of certain essentials (e.g. wheat and meat), or to ration the existing supply, or to adopt both those courses.

It *may* be necessary, even in normal times, to take steps to stimulate the supply of certain things

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(either by direct State production or by assuring reasonable profits to private industry) if the standard of living of the whole people is to be permanently raised.

On the other hand, it is to be remembered that the character of the goods produced depends upon the nature of the demand (to a less extent probably in the case of the commonest necessities). It is immaterial to capital whether it is employed in producing necessities for the mass or luxuries for the few. It will go where there is the most profitable demand for its products. If the proposals outlined above serve to increase the demand for necessities and restrict that for luxuries, the character of production will tend to alter in the same way. Any immediate action by the State to direct the course of production may therefore be postponed until its absolute necessity is clearly demonstrated.

THE STANDARD OF VALUE

The question of production and distribution, difficult and complicated as it is, is overshadowed by another of infinitely greater importance, which may be conveniently described as "the standard of value." The first is an economic question, the second a psychological one. The first deals with the production and distribution of the things desired, the second with the nature of the things desired.

It will be readily admitted that the main impulse to human effort is the satisfaction of human desires, and the nature of those desires will determine the character and intensity of the effort.

What are the things men desire, things for which

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they are willing to work and which they regard as adequate reward for their labour? Food they needs must desire, but beyond the simplest satisfaction of physical necessities human desire is an altogether indeterminate thing. The Hindoo may require his few handfuls of rice, and beyond that wish nothing but a life of contemplation. The Neapolitan beggar, his need for macaroni satisfied, may ask no more than somnolent ease in the Italian sun. These are their *standard of value*, the greatest of the desires by which they measure the "good" they get.

The Englishman, the American, and the rest of the civilization they typify, have almost lost this capacity for *divine content*, and speak rather of *divine discontent*. Sufficiency of food is no longer enough. It must be of an ever more delicate and expensive character. Their material desires grow without ceasing. Their insatiable craving for more and ever more is without doubt one of the keenest spurs to what we call "material progress." But appetite grows faster than attainment, and the satisfaction of desire (which is presumably the object of this restless endeavour) recedes, like the foot of the rainbow, as fast as they advance.

There is little practical value in contrasting these extreme philosophies—that which finds the summit of human happiness in the life of pure contemplation, and that purely materialistic one which sees no pleasure but that of acquiring and spending. We are, for good or ill or both, concerned with the acquisitive civilization, and we could not, if we would, change it for the other. But the fact that the other

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exists may give us reason to hope that the Western ideal may be modified, if such modification appears desirable in the general interest.

Look where we will, among all classes in the country there seems little conception of pleasure other than that which must be bought. Many of the poorer sections, it is true, rarely have the opportunity of buying pleasure from lack of means, but on those occasions when an unusual access of money furnishes the opportunity many seem to fly to extravagant spending as the only pleasure they can imagine. This *buying of pleasure*, whether in the shape of music-hall or race-course, of motor-car, or diamonds or fur cloaks, merely means that *we lack the capacity to please ourselves*, and have to pay others to do it for us.

The economic objection to luxury spending already referred to applies to all such. Those who work merely to amuse us are taken from productive labour, and the national dividend, on which we all rely, is by so much reduced.

A worse feature is that such pleasure is *individual*. The amount of amusement an individual can buy depends upon the share of the national dividend which he can appropriate to himself; and so long as desire takes this form the cut-throat struggle for the lion's share will continue.

Unfortunately, too, the mind which can only find satisfaction in *things* bases its desire, not upon that which is *attainable*, but upon the best that is *imaginable*; and consequently the satisfaction of one craving is but the birth of another, until at length the unfortunate millionaire, who can purchase anything,

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finds himself with a *habit of desire* and nothing fresh to feed upon. Each class hankers for the pleasures of the class next in wealth above it. Discord and unrest are the inevitable result; and unless some change takes place in the general conception of happiness, progress will merely mean a humanity staggering along under an ever-increasing load of luxury, each individual blind to the burden he himself carries, and seeing only with jealous eyes the burden of his neighbour.

Somehow or another we must learn to find pleasure in other ways, pleasure whose source is within ourselves, pleasure not dependent upon the incessant acquisition of material things or upon the purchase of other men's service. We must recover something of the lost art of contemplation, the cheapest, the surest, and one of the most abiding of human satisfactions; and in proportion as we succeed in that attempt so will our craving for things diminish, and with it that spirit of jealousy and greed which is both a cause and an effect of our competitive system.

Such a change in our common standard of value is not to be brought about at a stroke. Revolutions may destroy the organization of society, *but they do not re-create the mind of man*. Mere teaching, preaching, Acts of Parliament, resolutions by associations, are of no avail. The mind cannot find its source of pleasure in reflection until it has acquired the power of reflection. The pleasures of the body hold their unchallenged place because the mind is dead, and they cannot be superseded until the mind is awakened.

Fortunately, at no time in the history of the world

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was there open so vast a field for the human mind to feed in as is open to the poorest of us to-day. The temples of the Sciences and the Arts stand with open portals before us, and within each a vast and ever-growing mass of knowledge, offering to the contemplative mind endless avenues of unexplored delights. Those temples are left almost deserted. The people demand to be amused, because they have no source of inward pleasure. They crave ever the material delights, because the more subtle and enduring pleasures of the mind are beyond their capacity.

This is true of every class, of the poor man in the picture palace and of the rich man hurtling through the country in his fifty-horse-power car, and until some new conception of happiness is added to the present we may look for social and industrial peace in vain.

Education, with this end in view, is apparently the only road to a saner condition of life. Education which is designed merely to make the man a stronger fighter in the competitive struggle will make things worse rather than better. The workers' organizations are already alive to the need of better and wider education for the people. It is a movement full of hope, and it might be extended with advantage to every class in the community.

CHAPTER XXI

TAXATION

Taxation—Increasing Public Expenditure—National Debt—Sinking Fund—Heavy Yearly Taxation—Objections thereto—Importance of Early Redemption of the National Debt—Capital Levy; Arguments for; Common Objections Answered—Excessive State Expenditure—Revenue from the State's own Resources—Profit on State Enterprises—Individual Taxation—Food should be Exempt—Beer Duties, etc.—Direct Taxation—Income and Profits—"Ability to Pay" depends both on Income and Capital—Tax on Expenditure—Should Taxation Encourage Saving?" Saving" by the Mass of the People should be Unnecessary—Danger of Excessive Increase of Capital at Expense of Consumption—Last Words—Limits of Attainability of Human Ideals—Goodwill and Spirit of Co-operation Necessary.

THE foregoing brief review of the main features of State economy would not be complete without some reference to the question of taxation. The public expenditure of every progressive State is rapidly expanding as new functions are taken over by central or local authorities. The enormous sums now spent by the State in this country involve a considerable redistribution of the national dividend, and the collection of those sums by way of taxation has direct and indirect effects upon the general well-being too important to be ignored.

The proposals outlined in the latter part of this book necessitate financial reorganizations on a very

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important scale, and their success in practice must largely depend upon the general financial position at the time they are undertaken. It may therefore be assumed that it is a matter of serious urgency to set our financial house in order, and to reduce the national business accounts by the exclusion of items which represent in a sense "entries on both sides," so far as that can be done without injustice to individuals. The balance will consist of yearly outgoings which must be met by yearly income (taxation); and only when that yearly liability stands clearly forth can we usefully consider how the necessary revenue should be raised, and in what respect those yearly outgoings can, if necessary, be reduced.

The most striking single fact at the moment is the colossal National Debt, and it is desirable first to consider how that debt should be treated in this process of "clearing up."

We may take it that the national debt consists approximately of :

Internal debt (loans raised from people in this country)	£6,500,000,000
External debt (loans raised abroad)	1,300,000,000
	<hr/>
	£7,800,000,000
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Against this there are sums due from the Dominions and the Allies roughly equal to £1,900,000,000. Of this latter figure only a small proportion can be considered "good," and in any

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case it will be more than absorbed by our indebtedness abroad (mainly to the United States).

We may therefore look upon the internal debt as a figure against which there are no set-offs; and its treatment may be considered as a separate problem with which this country itself has somehow or another to deal.

At an average rate of 5 per cent., the yearly interest alone amounts to about £325,000,000. If the debt is to be paid off by means of a sinking fund at one-half per cent., the yearly charge is increased by £32,500,000, making in all £357,500,000.

Is it desirable that this huge sum should be collected in the shape of taxation every year for the next sixty years; or should some drastic step be taken to clear it, wholly or partly, out of our national accounts within the next few years? ¹

Some of the objections to a long-continued yearly charge may be briefly indicated:

1. The yearly tax will be in considerable measure "passed on" to the consumer and appear in higher prices. Some economists hold that an income tax cannot be "passed on." This is certainly not correct. Price is not governed by the "least" cost of production, but rather by the cost of production of those who supply or control the bulk of the market, and the innumerable "price agreements" which rule British industry practically place all our main in-

¹ The futility of relying on *good intentions* to pay off debt in the future is shown by the fact that the total debt in 1817, after the great French war, stood at £850,000,000. It still stood at £707,000,000 when the late war began. What is the hope of paying off the present debt of £8,000,000,000 if we trust to similar pious resolutions?

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dustries under what is, for price purposes, a unified control. Moreover, it is a common practice to include taxes in the cost accounts on which prices are founded. How much of the £357,500,000 will be so charged in increased prices it is, of course, impossible to say, but it can be said with certainty that a considerable part of it will be so "passed on" to the consumer. The long-continued yearly tax means, therefore, a long period of prices higher than they would be in the absence of such a tax.

2. The collection and distribution half yearly of this large sum takes *some* capital permanently from industry.

The process of collection is practically continuous, and, however perfect the financial arrangements may be for utilizing the revenue as it is collected, on an average there must be *some* period during which the sum collected lies idle before its distribution and re-absorption into industry. An appreciable financial disturbance is created by this operation of collection and distribution, and its net effect is that the capital of the country is not so fully and continuously used as would otherwise be the case.

3. If collected to any extent by means of indirect taxation, the result is again higher prices, mainly at the expense of the mass of the people.

4. The interest on the debt is a transfer from the whole of the community to a section (the interest receivers), and although a very large proportion of the people are entitled to *some* interest, the bulk of it passes to the more wealthy sections. The interest, therefore, constitutes a distribution of the national

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dividend, tending to greater inequality rather than less, with the social disadvantages already indicated.

5. The existence of an enormous debt carrying an average rate of interest of over 5 per cent. must offer a serious obstacle to a substantial reduction in the general rate of interest; and to the extent to which it maintains a high rate, it must handicap business and keep all prices at an excessive level.

6. The charge of a high rate of income tax in this country tends to keep capital from investment here, and to drive native capital abroad unless it is tempted to remain by a high rate of profit (and consequently a relatively high range of prices).

7. Conversion of the debt to a lower rate of interest will be extremely difficult if its amount is not heavily reduced.

8. A high range of prices here will handicap British trade in the world market.

9. Anything which tends to restrict production or the employment of capital here will tend to diminish employment and to maintain or accentuate the economic causes of unrest.

10. The normal yearly expenditure of the Government (excluding the internal interest) will necessitate a high income tax, and these interest payments may therefore be regarded as paid entirely out of *abnormal* taxation.

11. We must contemplate the *possibility* of future wars and the *certainty* of future capital outlay on social reforms. The existence of the present huge debt must render much more difficult the raising, either by loan or taxation, of the sums needed for

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these purposes, and to that extent jeopardize the security or the stability of the State.

12. A long continued high rate of income tax will check accumulation, because the tendency of many will be to maintain their existing standard of living and to diminish their margin of saving rather than the reverse. It will also mislead the wage earner, who will see rates of dividend declared out of all proportion to the real income of the shareholder. It would be better, in the interests of industrial peace, if the dividends more nearly represented real "spendable" income.

In view of these objections to the long continuance of the debt and the consequent heavy taxation, an early liquidation of the debt is manifestly desirable, if it is possible to secure it without creating other difficulties of an equally serious kind.

The method of liquidation now widely accepted is that known as the capital levy. The idea of an operation of this kind for the purpose of paying off a national debt is very old. It was first suggested in connexion with the recent war in 1915. Since that time the proposal has been advocated in many quarters, and the enormous growth of the debt has made the question one of outstanding importance. We need not concern ourselves with the name commonly given to the proposal. "Capital levy" may be an apt expression or the reverse, and some have sought to confuse the issue by attacking the label.

Whatever the name, the general character of the proposal is clear enough. It is that a contribution should be made by the individual citizen for the

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purpose of paying off the war debt (in whole or in part), and that the amount of the contribution in each case should be measured, on a graduated scale, by the amount of wealth owned by the individual.

The main advantages of such a levy may be briefly summarized :

1. The avoidance (according to the extent of the levy) of the disadvantages of long-continued yearly payments as already set out.

2. A lowering of the general rate of interest, and the possible conversion of the outstanding debt to a lower rate of interest at an earlier date than would otherwise be possible, with a consequent saving in interest.

3. Some diminution in the wide inequality of wealth distribution, with a fall in the unproductive expenditure of considerable classes of the people, and a lowering of general prices.

4. A lightening of the burden on industry as compared with that imposed by an income tax. A tax measured by capital is more favourable to industry than a tax measured by income.

5. The possibility of paying a large proportion of the levy by the surrender of War Loan or other national stock, and its immediate cancellation.

6. The general improvement in the financial position of the country, and the cessation of abnormal forms of yearly taxation.

7. The effect of a generous levy upon the general attitude of Labour towards Capital.

On the other hand, certain objections are frequently urged against the proposal of a levy :

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1. It must create a feeling of insecurity.

If a levy be made once it may be made again, and that in face of such uncertainty people will lose their incentive to save, or will send their savings abroad. This objection will have much or little force according to the outlook of the individual. In any case, if a Government arises in this country which determines to appropriate the wealth of the citizens by recurrent levies it will not be stopped by the absence of a precedent. On the other hand, a levy such as this, imposed as an exceptional measure for the purpose solely of redeeming debt, ought rather to increase confidence than insecurity; and, so far as a precedent is worth anything, should indicate the legitimate purpose of such exceptional measures. To quote words which I have used elsewhere,¹ "It would indeed be curious if so heroic a measure as the liquidation of a debt of £3,000,000,000 weakened confidence. The result should be quite the reverse, except perhaps in the minds of those who can only see in the proposal the first stage of a progressive appropriation of all private wealth. They should remember that it is a question of alternatives, and that one of the surest means of avoiding any serious attack on 'capitalism' in this country is to take speedy steps to free the people and the industry of the country from this colossal burden of debt."

2. It takes capital from industry.

This objection should be considered under two aspects which the opponents of the levy frequently confuse—viz. the effect on industry generally, and the

¹ "A Levy on Capital," *The Organiser*, May, 1918.

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effect on individual business. As regards industry generally, it is obvious enough that a levy applied solely to the repayment of internal debt does not diminish the amount of capital available for industrial use in any way whatever. The fact would be very different if the levy drew capital from productive industry to spend it in unproductive ways. The suggested levy does nothing of the kind. It effects a transfer between individuals, but leaves the total available for productive industry untouched. In so far as it diminishes the spending power of individuals it may even lessen the drain, and divert wealth to the purposes of productive capital.

The objection that it may have a serious effect on individual business has been strongly urged. It is said that the business man may have the whole of his resources sunk in his business, or, if he has investments, may need to use the whole as security to the bank for advances used in his business, and that to take anything from him is to compel him to restrict his business. The answer to that is that the private business man who has no free resources can be met by spreading his liability over a sufficient period to enable him to meet it out of profits. The number of such cases is relatively small, the majority of such men possessing free investments not needed in any way for the support of the business. In other cases, investments are necessary as security for bank advances. This case also can be met by payment in instalments, and, where necessary, to avoid a restriction of bank credit, the State could give its guarantee for a number of years up to the amount taken in the form of levy. This is entirely a question of adminis-

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tration, and as an objection in principle it has little or no weight.

3. The State cannot levy capital which exists in the form of machinery, factories, trading stock, and the like.

Much play has been made in some quarters over this very shallow notion. There is, of course, no smallest necessity for anything of the kind, nor has any responsible supporter of a levy ever suggested such a thing. The only excuse the objections have lies in the inapt use of the term "capital," where "wealth" would have been more appropriate. Where the "wealth" of the individual consists solely of "trading capital," he can only meet his liability out of profits, and some form of payment by instalments readily meets this difficulty.

4. The realization of land, houses, investments, etc., to pay the levy would cause so fearful a slump in prices as to sweep away most of the wealth on which the levy was made.

Here also the objection is artificial. It is not suggested, nor is it necessary, that these wholesale realizations should take place. The form in which the levy should be paid, whether in cash, or by the surrender of national debt stock, or by the transfer of investments or by instalments paid out of income is solely a matter of arrangement, and no Government in its senses would propose any measure which involved such universal sales.

It may be pointed out that a levy measured by the individual's total wealth and graduated in rate according to that total might render possible such a reduction in the income tax or other forms of revenue

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as to leave the man of moderate capital distinctly better off than he would be if no such levy were imposed.¹

After all, we are faced with a very definite practical problem—the treatment of a debt amounting to close upon £8,000,000,000. In considering how it should be dealt with, it should be remembered that we have not merely to decide whether any particular proposal is good or bad in itself. No purely fiscal measure can stand the test. We must never lose sight of the fact that we have to decide *between alternatives*. We cannot cast aside any proposal because there are economic objections to it. There are economic objections to all. All taxation, so far as regards its primary purpose of extracting revenue from the citizen, discourages thrift, checks the accumulation of capital, hinders the expansion of trade, tends to drive capital and labour abroad—and so on. Every kind of taxation has secondary effects peculiar to itself. One result is a more even distribution of the national burden. Another discourages wasteful or undesirable expenditure. Another prevents the undue accumulation of wealth in idle hands. Another facilitates the piling up of enormous fortunes at the expense of the consumer. Others tend to direct or deflect the productive activities of the community in this or that direction. It is by its secondary results that any system of taxation must finally be judged. *Our colossal debt must be dealt with by taxation.* It can be dealt with by long-continued yearly taxation, or (wholly or partly) by some exceptional measure such as the suggested levy. *'We must*

¹ "A Levy on Capital," *The Organiser*, May, 1918.

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choose; and between the two the balance of advantage is distinctly on the side of the levy.

Let us now turn to our normal (annual) taxation, and consider the form it should take.

Probably the most important thing to be remembered is that the revenue collected by the State is merely a part of the national dividend, to which reference has already been made. The distribution of the national dividend falls, broadly speaking, under three heads:

1. What is consumed by the people.
2. What is "saved" and used as productive capital; and
3. What is taken by the State.

The part taken by the State is also divisible into that which is paid away in wages and salaries and consumed by the people, and that which is used in "unproductive" forms—warships, guns, etc. The wages and salaries are mainly unproductive in the sense that the receivers are not directly employed in adding to the national dividend in the shape of consumable goods.

If the amount allocated in any one year to any one of the three is increased, the amount available in that year for the other two is correspondingly diminished. *Excessive State expenditure thus lowers the Standard of Living* by diminishing the amount available for consumption, or injures future production by taking what would otherwise be saved for use as capital, or both. The State must, therefore, "*cut its coat according to its cloth.*" The amount which it can safely take and expend *unproductively* is rigidly limited by the general economic position of the

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country. Taxation pressed beyond this point must weigh with special hardship on the mass of the people, and, if long continued, reduces them to distress.

We must, therefore, put aside the idea that the State possesses an inexhaustible pocket, from which unlimited benefits may be drawn at will. The people as a whole cannot draw from the pocket of the State anything but what they themselves have put into it.

Within those limits, however, the State must have revenue. So long as there is a central organization charged with the duty of performing certain functions on behalf of the community, that central organization must be supplied with the necessary means. At present our national outlay consists chiefly of the cost of Civil Administration, Law and Justice, Education, Pensions (Old-Age, War, etc.), Insurance (Health, etc.), Post Office, National Defence and interest on debt. These may be capable of decrease, or susceptible of increase, or may be provided in other ways, but substantially they must be met by some form of taxation—i.e. *by drawing in some way on the national dividend*.

The necessary funds may be obtained in two ways :

1. Directly from the State's own resources (rents of property, profits on State productive enterprises, etc.), or
2. From the pockets of the individual citizens.

Revenue from the State's Own Resources.—At the present time the revenue derived in this way in this country is extremely small. It consists

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mainly of the Postal Service, which before the war left a surplus of about £5,000,000, and of trifling receipts from Crown Lands and investments (e.g. Suez Canal shares). If the policy outlined in this book were carried out, the revenue under this head would increase very largely; but against this income must be set the payments by way of annuity or interest to the present proprietors of the land and such income-producing assets as the State may acquire by purchase. The net income available for State service cannot be very great for a long time to come; but within certain narrow limits the amount of that net income may be determined by the State as a monopolist.

We need not vex ourselves with the oft-debated question: Should such monopoly receipts be regarded wholly as earnings or in part as taxation? It would be a matter of indifference if the present distribution of the national dividend were modified on the lines already suggested; but it is a matter of some moment as regards the burden on the individual if the present competitive system remains unchecked.

A point of greater importance is this: *Should the State make a profit on its own enterprises?* Some urge that the object of State ownership is not the making of profit, but the rendering of service to the community; and that, therefore, the State should charge as nearly as possible at cost price. Others, admitting the principle, consider that a small profit for contingencies should be aimed at.

The problem on the whole is not so simple. Services are steadily changing their character from individual to community services; and with that pro-

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cess the method of payment changes from a charge on the individual for specific services rendered to him to a charge on the community levied by some process of taxation. At one time sanitary services (e.g. the removal of night-soil) were matters of individual contract (and are so now in isolated cases), and yielded a profit to the contractor. When regular and efficient drainage became necessary to the health of the community, such sanitary measures became a community service to be paid for by means of a rate or a tax. Such rate is commonly fixed to cover the cost and yield no profit. Education has to a great extent followed the same course. The feeding of necessitous school children, the supply of free milk to the poor are more recent instances. We must expect that in due course other services recognized as socially necessary will also shift from the sphere of individual contract to that of the community. If regarded as profit-earning enterprises these would under present conditions show a loss, and therefore we cannot say definitely of any particular service that it should be given at cost or at a profit, until it is decided on what basis community services should be paid for.

Moreover, the steady extension of State enterprise must as time goes on limit the field of private enterprise from which the State can draw a revenue by taxation. As that limiting process continues, it is tolerably certain that the range of State services will increase, and the necessity of securing the requisite revenue will compel the State to look more and more to its own activities for the required funds. We may, therefore, in reason recognize the principle that the

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State should make some profit from its own undertakings, or from services rendered to its citizens.

The second method of raising annual revenue is by taxation (direct or indirect) of the individual citizen.

Indirect taxation is that which is first charged upon the producer or the distributor of goods, and by him "passed on" to the consumer by means of an increased price. Where the goods are imported, the tax is levied on the importer, and is known as "Customs Duty." Where the goods are produced within this country the tax is levied on the producer, and is known as "Excise Duty." The chief articles subject to these duties in this country are: Tea, coffee, sugar, beer, spirits and tobacco. The tax on the first three is sometimes referred to as the "breakfast table" duty. The last three are generally regarded as luxuries—a not altogether exact description, but possibly near enough to the truth for classification purposes.

Should any duty be charged upon common articles of food? Every argument is against such a charge in a rationally organized community, *and the fact that such a charge is considered financially necessary is tolerably good evidence that the State expenditure is more than its economic position justifies.* It is important that every member of the community should be assured of an adequate supply of food. As things are, and as things are likely to remain unless some radical change in the social and industrial system takes place, a large section of the people do not enjoy a sufficiency of food. A tax which makes food dearer can only result in the diminution of the

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amount consumed by those whose supply is already inadequate, and such a tax is, therefore, directly opposed to the root condition of any decent society.

Even should a real redistribution of the national dividend take place, and wages be determined by the total divisible product, giving to each something more than the minimum of subsistence, it would still be better that the State's share of the national dividend should be drawn as near the point of production as possible rather than at the point of consumption. Wages would in that case represent the *net spending power* of the receiver. If wages are to be agreed, frequent fluctuations in the cost of living must be avoided, and the price of all necessary things kept as nearly uniform as possible. This condition can be more easily secured if necessities are left free from taxation of any kind. It is probable that, sooner or later, the State will be compelled to produce or purchase such necessities itself. In that case, *if such revenue is absolutely essential*, it could be secured by way of profit on such production or purchase. Such necessity, however, involves a lowering of the standard of living of the mass of the people, and should be the very last resort of a State in a financial emergency. Revenue to be drawn from the mass of the people should leave necessities untouched, and should either be secured by a tax on surplus income over such necessary standard, or by a tax on articles of luxury or semi-luxury which the common standard of the time does not regard as necessities. *We start, therefore, with the principle that no tax or duty should be levied on common articles of food.*

Then we come to such things as beer, spirits and

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tobacco. It may be said, reasonably enough, that these are not articles of necessity, that they are not essential to the bodily or mental health of the people, and that, *if need be*, the consumption of these things could be reduced by taxation without inflicting any vital hardship upon anybody. The question is really a relative one. If the national dividend (or the total national production) is such that, after the State has taken its share for the common expenses of government, there is not enough left to provide beer, spirits and tobacco equal to the desires of the people they must manifestly do with less. That is merely to say that the price of these things must be increased to them (the increase going to the State in the form of a tax or duty), or the money income with which they purchase these things must be reduced (by an income tax or otherwise), the difference going to the State.

It may be, however, that there are other sections of the community whose share of the national dividend (or whose income) is so great that it would be socially more just to reduce their share before lowering that of the mass of the people. The justice of levying a tax on "common luxuries" thus depends upon the relative distribution of incomes; but, subject to this consideration, there is no valid objection to such a tax. The tax may take the form of a charge upon the production or distribution of such articles, or of a profit made by the State in undertaking such production or distribution itself. The former is the more common method at present; but the latter exists in some countries, and shows some tendency to extend. From the purely financial point of view, we need not hasten such a change in this country; but

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if, for other reasons, these things are brought within the sphere of State enterprise, we may regard the change from "tax" to "profit" without reluctance.

Whatever view we may take of indirect taxation on things of common consumption, it is important to remember that, in the present state of the finances of this country, wholesale changes cannot be brought about at a blow. If the State expenditure is substantially diminished, these indirect taxes call for early treatment. Those on food could in such case be remitted altogether, the remainder being considered in a general review of our financial system. In finance, as in other matters, it is normally better to proceed step by step in the direction of the goal, rather than attempt to reach the ultimate objective at a jump.

Direct taxation occupies a predominant position in the financial system of this country, and there is little doubt that it will increase in relative importance in the future. Its nature is best understood from its main examples—the Income Tax, Excess Profits Duty, Corporation Profits Tax, Death Duties, motor-car and other licences—its characteristic being that it is charged by direct reference to the circumstances of the individual, and generally upon the person who is supposed to bear it. In the main, direct taxation is concerned with taxes on profits or income or accumulated wealth. Certain licences may be capable of expansion as a matter of policy directed to the restriction of "luxury" expenditure, but they are of little importance from the point of view of State revenue.

As regards taxation of profits, a suggestion has already been made (page 259) that a limitation of

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profits should be effected by imposing an increasing tax on profits exceeding 15 per cent. on the capital in the business, and making 20 per cent. the practical maximum that could be obtained in any business. The purpose of such a measure is not revenue but industrial peace; and its object would be secured if no business made more than the prescribed rate of profit, although in such case no revenue would arise. It is probable, however, that an appreciable amount would be received by the State, and such amount—great or little—should be treated as part of the general revenue. As a practical policy, certain difficulties have to be met, especially at the transition stage. A business making actually 40 per cent. on the actual capital invested in it may have been sold to yield only 10 per cent. to the purchaser, or shares may have been bought with a like result. It would in such a case be unjust to levy a tax on the 40 per cent. basis, seeing that the present proprietor receives only 10 per cent. on the capital actually sunk by him. It would also be unjust as between individuals if in one case the business making 40 per cent. remained in the hands of its founder, and if in the other case it had been sold to another individual. It would be exceedingly difficult to harmonize the great diversity of conditions at the moment when such tax is first applied unless some other equalizing tax is applied at the same time. The capital levy would offer perhaps the best solution of the difficulty. The business or the shares having been valued for the purpose of a capital levy, such value should be regarded as the cost of the business for the purpose of the limiting

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tax on profits. All existing businesses would thus start from their current value, capital levy being based upon such value. As no business would be "valued" to yield over 15 per cent., no existing business would pay the "limiting tax," unless it increased its existing rate of profit considerably, such tax being in effect applied to new concerns only. Secondary difficulties would arise from the fact that the normal life of various classes of business varies considerably, and that some businesses depend less on the capital employed, and more on the special qualifications of the owner than others. These difficulties are, however, difficulties of detail, and do not affect the general principle of profit limitation. The tax should not be regarded as in any sense a tax upon an individual, but as a surrender to the community of excessive prices charged to individuals for the products of the business.

We have then the position that certain revenue is required by the State, which revenue is to be collected from the individual citizens by some form of direct taxation. This taxation may be fixed by reference to the individual's "income" or his "outgo," or, in other words, by his capacity to pay (measured by his wealth and his income), or by his actual expenditure. Let us consider, first, taxation by reference to capacity or ability to bear it.

How is "ability" to bear taxation to be measured? First, the citizen must live, and should be in a position to maintain at least that minimum Standard of Living which, as already suggested, should be assured to every individual. That standard may vary from time to time according to the general economic posi-

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tion of the country; but at any one time there is a point which represents the best Standard of Living for the mass of the people. That standard should be maintained, and it should not be affected by taxation, direct or indirect, if the necessary revenue can be obtained from other sources. Whatever that standard may be, and however it may be expressed in money, it should be rigidly exempt from income tax.

The cost to the individual of maintaining a minimum Standard of Living must vary according to the number of those who are dependent upon him. There should, therefore, be exempt from taxation *at least* that amount of spending power which represents the minimum national Standard of Living for the number of persons whom the particular income must maintain. Seeing that this national minimum would be fixed from time to time by reference to the total national dividend and the share thereof taken by the State, the minimum standard would represent a divisible balance after providing for the needs of the State, and would apply to the great majority of the people. The numbers to be taxed directly would consequently be relatively small.

Persons whose spending power exceeds this national minimum are clearly able to pay *something* towards the expenses of the State. How should that something be measured?

Ability to pay may depend upon a variety of conditions. Two persons may possess incomes of the same kind but different in amount—by income we mean in each case a surplus over the exempt minimum. Is their "ability to pay" to be measured in strict proportion to the amount of this income—i.e.

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if one has a taxable income of £500 and the other of £1,000 of the same kind, should the latter pay just twice as much as the former in taxes, or should he pay more than that? This question (the graduation of the income tax) has already been settled in this country, and our present Income Tax law admits that the *rate* of tax should increase as the income increases. There is no longer any need to discuss the justice of that principle. We might support it by reference to another, the importance of securing to the mass of the people the largest *practicable* share of the national dividend. The demands of the State (or the State's share of the national dividend) should tend rather to reduce the greater individual income than to reduce this desirable minimum.

Then incomes may differ in their nature. Some may be the result of personal labour, some received from the investment of capital without personal labour, some may combine both personal labour and capital; the nature of the labour and the use of the capital may vary in social desirability or in its degree of monopoly. At present the law recognizes the distinction between earned incomes and investment incomes in a rough sort of way, but it can hardly be said that the present practice acts justly between individuals.

First consider the extreme cases of pure earnings and pure investments. One has a "surplus income" of £400 as salary or wages; the other has a surplus income of £400 in the shape of dividends on £8,000 War Loan. Which is "able to pay" most as a yearly tax? There is no hesitation in saying that the one with the War Loan is "able to pay" a larger yearly

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tax than the other. This difference is not due to the amount of the income itself; nor is it to be based on grounds of social morality. It is really due to the fact that in the one case death terminates the income, and that the earner must make some provision for his dependants in view of that possibility; while the other has always £8,000 behind him. He is free from the necessity of making provision out of his income. *He may even spend much of his capital* and still leave as full a provision for his dependants as the other can possibly hope to do out of his earnings. The difference in their respective abilities to pay is therefore due to the existence of this capital sum of £8,000; and the additional amount of tax which the one could bear is measurable, not only by the character of his *income*, but by the amount of his *capital*.

If all cases involving capital were of this gilt-edged nature, the capital being returnable *in full* at some date in the future, this additional tax could be based upon the amount of the income and give the same result; but the very varying amount of income derived from capital under different circumstances makes income a very unfair measure of this additional tax. For example, a man with £8,000 may invest it in shares in a company yielding 20 per cent. in view of the uncertainty attaching to competitive industry. His income is £1,600 a year, combined with a risk of losing his capital in whole or in part. It cannot be said that, as compared with the other two, his ability to pay is to be measured entirely by the income. He has not *four times* the ability of the man owning £8,000 in War Loan. On the other hand, it may reasonably be said that so far as his

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income is concerned he has *four times* the ability of the man earning £400, and has some additional ability in view of his capital of £8,000. His additional ability is thus again measured by his capital and not by his income (the relative insecurity of his capital might in theory be regarded as giving an additional ability less than that possessed by the holder of War Loan).

Now take a more difficult case combining both labour and capital. A man has £8,000 and uses it in some industrial enterprise. He makes a yearly income of £2,400. So far as his yearly income is concerned, his ability to pay is the same as that of the man who draws a salary of £2,400; but he has an additional ability due to the possession of £8,000 capital. Or we may put this in another way and consider his £2,400 to be £1,600 earned by his labour and £800 (as in the previous case) as the return on his investment. Again his ability is measured by his yearly income with an additional ability based on his capital.

Next, consider the case of a man who has £8,000 and leaves it in the bank on deposit at 2 per cent. or keeps it at home and lives on it. Real ability to pay is not measured by income, which is £160 in one case and nothing at all in the other. An ability certainly exists in view of the £8,000 he possesses, and this can only be measured by reference to the £8,000.

These considerations lead to the view that, subject to exemption of the agreed minimum, in addition to any distinction made on account of the character of the income of the individual, an additional charge should be levied by reference to the wealth possessed

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by him. If the additional ability to pay conferred by the possession of capital is measured in terms of an assumed additional income, the total ability to pay of any individual would be represented by actual yearly earnings plus assumed capital income (e.g. the yearly annuity such capital would purchase). The result is a considerable relief to "earned" income, and a relatively heavier charge on "investment" income—a movement which accords with the general suggestions made in the chapter on Distribution, which involve, among other things, a reduction of *abnormally* large incomes from salaries or wages or profits.

The practical difficulty lies mainly in estimating the amount of capital. Much of this difficulty would, however, disappear if the measures of public ownership outlined in the foregoing pages were carried into effect.

The above deals with the individual's ability to pay yearly taxation, measured broadly by his spending power over a determined minimum; and this corresponds with the presumed intention of the income tax and super-tax at present levied in this country. The revenue system of the United Kingdom also provides for a "tax on capital" in the shape of the estate duty—a proportion of all estates passing on death, the percentage varying within wide limits according to the total value of the estate. At the present time, notwithstanding the power of accumulation incidental to the existing industrial system and the substantial rates of duty charged, the estate duty yields under £50,000,000, as compared with over £600,000,000 derived from various forms of taxes on profits and income. A more socially justifiable dis-

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tribution of the national dividend must have the effect of diminishing the extremes of wealth and poverty; and under such a system the estate duty is likely to shrink in importance as a source of State revenue.

It may be taken as a general principle that the recurrent (annual) expenditure of the State should be met out of annual income. It is, properly speaking, that share of the national dividend which passes to the State to meet the common expenses of the community. The national dividend is the total net production of the year, and does not, of course, include any part of the accumulated wealth of the country. The State *cannot* safely go beyond the national dividend and trench upon the national wealth in its search for annual revenue. If annual expenditure goes beyond that point the State is "living upon capital," and is on the highway to bankruptcy. The estate duty is drawn from accumulated wealth, and not from yearly income; and therefore in any sound system of finance it should form no part of the funds from which the State meets its recurrent (annual) expenditure.

On the other hand, the State must from time to time be faced with abnormal expenditure of a capital nature; and it is proper enough that such outlay should be met out of taxation drawn from accumulated wealth, so far as such "wealth taxation" can be levied with due regard to the general and industrial interests of the community. It will be generally admitted that where wealth passes on death the State is entitled to intercept a part of such wealth and apply it to community purposes. How much the State is entitled to intercept, or how much it can

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wisely intercept having regard to the industrial system in force, need not detain us here. The amount so taken will doubtless vary according to the conditions of the time and the capital needs of the State. Whatever the amount may be, however, it should properly be devoted to capital purposes—repayment of loans, the cost of enterprises undertaken or acquired by the State, and so on.

So far we have considered taxation of the individual based upon his relative "ability to pay." This leaves in the hands of individuals net "spendable" incomes of varying amounts; and the question remains: Should the way in which this net income is spent be taken into account in fixing the individual's contribution to the State funds?

The State should not interfere with the liberty of the individual citizen except where the welfare of the community specifically necessitates such interference. This principle suggests that the individual should be free to dispose of his net spendable income in any way he pleases, and that there should be no State prohibition of any particular form of expenditure. On the other hand, some forms of expenditure are less "desirable" than others from the point of view of the community; and the State may reasonably discourage certain forms of expenditure as compared with others. Luxury taxes are an attempt to effect this.

As suggested in an earlier chapter, expenditure is open to criticism to the extent to which it "employs" unproductively able-bodied men and women who might otherwise be engaged on productive work to the increase of the national dividend, and consequently to the raising of the national minimum. Such

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form of expenditure is contrary to the best interests of the community; and a "discouragement" tax might properly be charged in such cases. Such a tax, which must tend to displace many from "unproductive" employment, would not promote the true welfare of the State if the displaced labour were to be thrown into the competitive market to sink or swim; but it could well form a part of an industrial organization which assures to all who are willing to work an opportunity of productive labour. A "discouragement" tax, whether charged in respect of personal servants or in respect of the production of costly luxuries, is not a revenue measure. To the extent to which it succeeds in diverting labour from socially undesirable to socially desirable forms, it fails to produce revenue. It is, like certain other measures, more a means of "social sanitation" than one of State revenue; and cannot therefore be looked to for any certain and permanent contribution to the common fund.

A further point may be considered here. Should any discrimination be made between income expended and income saved in measuring the tax to be paid by the individual?

Saving is not *in itself* a necessary or desirable act for the mass of the people. Under present circumstances it is unfortunately a necessary condition of security. The man who does not save lives always at the edge of the precipice, over which he and his family may fall into the gulf of destitution at the first pinch of unemployment. This condition of insecurity should not, *and need not*, exist in a properly organized industrial system; and where it does not exist saving (or the lowering of individual consumption)

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among the mass of the people *may be* a positive evil. The well-being of the mass depends upon the maintenance of the highest possible national standard of living. Voluntarily to lower the standard of living of *the mass of the people* by refraining from consumption is on the face of it to lower the level of the national well-being.¹ If, as suggested in the chapter on Distribution, the standard income of the mass is determined as a share of the national dividend, that share should be fixed after due provision is made for the maintenance and the necessary extension of the capital of the country. There would, under such circumstances, be no occasion for the bulk of the people to provide by their individual saving further additions to the capital employed in industry.

Increase of capital at the expense of consumption may in some circumstances become an actual evil. The enormous increase in productive power without a corresponding increase in the consuming power of the people leads, not only to industrial disorders at home, but also to a competition of capital for profitable investment abroad which, driven to excess, plays no small part in international conflicts.²

Additions to productive capital should therefore come, not from the incomes of the economically poorer sections of the community, but from the State's own resources or from the "savings" of the wealthier classes. It may reasonably be assumed that the less socially desirable forms of expenditure come from the

¹ A change in the Standard of Value (p. 262) implies that the amount of *leisure* enjoyed should be an element in the Standard of Living.

² See "Imperialism," by A. J. Hobson.

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excessive incomes of the wealthy ; and that any limitation of that expenditure (by saving or otherwise) would tend first to limit that less desirable expenditure. To encourage saving in these classes would therefore serve two purposes—the supply of additional productive capital and the diminution of “undesirable ” expenditure.

Encouragement to save might be given through the taxing system by distinguishing between income earned and income spent, e.g. by charging a flat rate of tax on all business profits over a certain amount and applying the personal (graduated) rates only to that part of the profit which is drawn out for personal disposal.

It is not necessary to pursue this question of taxation in greater detail. The outline I have given is sufficient to indicate the character of the financial system which would accord with social and industrial changes suggested in the foregoing pages.

It is desirable to repeat—it cannot be too emphatically repeated—that, throughout this discussion of the social and industrial problem, society is regarded as a form of human association which is subject to continuous development. We must regard social reform as a continuous approach to an ideal (more or less speedy according to the adaptability of the people), and not the attainment of a particular ideal. The latter is *impossible*, since certain of the factors in our problem are not susceptible of absolute human control. The specific forms of social and industrial change discussed in these pages must therefore not be judged as matters of *immediate attainability*.

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Given *general goodwill* they could be effected speedily; but that general goodwill is just one of the factors which lie outside the range of easy human control. It involves some present material sacrifice in the common interest on the part of the more fortunate sections of the community; but it may be hoped that that material sacrifice would be more than made good in all that is really contributable to human happiness if all sections of the community could approach these problems in a spirit of co-operation and a genuine desire to find a solution that would lift the whole life of this country to a higher and worthier plane.

Appendix

THE following paper on the "Economic Basis of Home Rule" was contributed to the Irish Convention which took place in 1917, and it has not hitherto been published. It is inserted here as a useful and practical illustration of the intimate connexion between the Economic conditions of a country and its Political institutions. The reality of this connexion, of which the history of the past hundred years affords many instances, cannot be ignored by those who seek to change or to modify either of these important aspects of national life. A marked change in the one without a corresponding modification of the other may easily lead to discordance and conflict. The present position in this country which shadows the establishment of an Industrial Authority as a rival to the Political Authority is significant; and it is to be hoped that the lesson may be taken to heart by all who desire to see in this country the harmonious working of progressive institutions.

THE ECONOMIC BASIS OF HOME RULE*

In the tangled skein of the Irish Question not the least troublesome thread is that of finance. With it are entwined not only the success or failure of the whole of this great experiment as regards Ireland itself, but also many important British and Imperial interests. It may therefore be interesting to inquire whether the principles underlying the present financial proposals have within them the seed of a permanent and stable settlement.

On several occasions the financial relations between Ireland and Great Britain have been the subject of formal inquiry. For this purpose the two countries have invariably been regarded as separate entities, united in a partnership; and the problem has been treated mainly as one of mere arithmetic. What is their relative "taxable capacity"? In what proportions should Imperial (i.e. joint) expenditure

* This paper refers to the Home Rule Act of 1914, but is equally applicable to the existing Act.

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be met by the individual partners? What is the real revenue of each, and how much of that revenue is spent upon the local services of each?

Numerous ingenious suggestions have been made as to the best method of determining the relative taxable capacity of these two partners, treated as separate fiscal entities, but subject to the same system of taxation. The innumerable statistical tables of all kinds that have been brought under contribution tend not so much to indicate a mathematical solution as to suggest that it is an attempt to find a relation between two things which are not comparable. Lord Farrer's Report on the 1894 Commission indicated this in its first conclusion: "We are thus forced to the conclusion that the system of taxation which now exists in the United Kingdom, while it may not be unsuited to the requirements of a rich nation like Great Britain, presses hardly and inequitably upon a relatively poor country like Ireland."

In the course of these inquiries there emerged considerable differences of opinion as to what constituted "Local" services as distinguished from "Imperial" services. The answer to this must depend on the choice between the "partnership" and the "organic" points of view. It is hoped to show that the former cannot fail to be inequitable to the poorer country, and the latter cannot be brought to the test of mere statistics alone.

The treatment of the subject as a matter between partners may have been natural enough in the case of the earlier Committees in view of the fact that they were not concerned in any way with questions of Irish Home Rule, although the narrow scope of their terms of reference gave to their reports little practical value. This, however, cannot be said of the Commission of 1894 or the Committee of 1911. They were appointed in immediate connexion with proposals to establish Self-Government in Ireland. It is curious therefore to note that in these cases also the question was still one between "partners," each of whom would take his share of the joint estate, and thereafter pay his share of future common expenditure. Nowhere does it seem to have been very clearly observed that the problem was not the mere division of a financial estate, but of a fiscal organism. No financial system that may be set up in connexion with Irish Self-Government can possibly succeed as a permanent measure which fails to recognize this fact, and which does not lend itself to the development in Ireland of a distinct, though closely associated, organic life.

The object of the Act of Union was doubtless to weld

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the British and Irish into one nation; and there is no doubt that the full success of that measure would have been of great advantage to both, and not least to Ireland. It fell short of complete success for reasons which are not difficult to follow. It is easy enough for two nations to unite materially, to become a single fiscal organism, with consequences that we shall see. Complete union, however, involves also the union of national self-consciousness, or at least the growth of a sense of common nationality, not necessarily destroying, but in most practical concerns submerging, the more local patriotism of each section. The sentiment of nationality, inclusive of all within its orbit, exclusive of all without, is the organic principle of national life. The natural organ through which it works is the Legislature, and its body is the State. The Act of Union failed to incorporate this Spirit of Irish Nationality. It was a political measure, and not the outcome of any active sympathy between the peoples. Ireland lay on the very fringe of Europe. No stream of outside life flowed through it. The country itself, separated by a broad stretch of sea from the larger island, was poor and held little attraction for English immigrants. The absence of intermarriage and of common association left the two races distinct; and no bond of sympathy was created to dissolve mutual ignorance and distrust. These circumstances of themselves would have been sufficient to prevent the growth of a sense of common nationality between the two peoples; and other circumstances tended to keep alive the exclusive sense of each. In any case, the Act of Union left the sentiment of Irish Nationality alive, a disembodied spirit, incapable of constructive growth because it had no body on which to work, but inevitably a constant source of unease in that larger body which had absorbed its own.

It is impossible to exorcise such a spirit by a surgical operation. There have been cases in which the attraction of common interests or the pressure of common danger has achieved some measure of success, and others in which material prosperity has submerged such national feeling. Apart from this, however, British statesmanship has long recognized that such disembodied spirits can never rest but in bodies of their own. Herein lies the root reason of Home Rule. It is to restore to the homeless Spirit of Ireland "a habitation and a name" in the belief that by such means that unhappy spirit may find peace. The Home Rule Act establishes a separate Irish Legislature; and so restores to the Spirit of Ireland a brain through which to work. Our

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present purpose is to consider whether in view of the financial system of the Act it restores also sufficient control over the body to give that spirit adequate scope for the exercise of its constructive powers and the development of its organic life. If it fails to do that, we may be certain that it has not reached finality.

In dealing with questions concerning the progress of human communities, biological analogies should be used with reserve. Such illustrations or explanations are, however, apt and instructive in connexion with the reorganization of society following the advent of the intensive industry of the factory age. The phenomena of living organisms do in fact find some counterpart in those of modern nations; and the recognition of this truth may suggest factors in our national problems which might otherwise escape our notice.

A primitive community is marked by "homogeneity of structure." The inhabitants for the most part win a livelihood in identical ways; and each is in the main self-supporting. There may be perhaps a carpenter's shop or a blacksmith's forge supplying the needs of the immediate locality; but apart from these there is little or no specialization of function. It is manifest that, so far as its economic life is concerned, such a community may be divided into parts without the smallest injury to the vitality of any section. In the same way certain elementary living organisms may be severed, each section continuing an independent life. As homogeneity gives way to heterogeneity, simplicity of structure to complexity, diffused capacity to specialized function, the possibility of severance without injury to the parts diminishes, until such severance means death to one or both the sections. The fiscal organism of the modern state is advancing in the same direction; and although we are far removed from the point where to divide is to destroy, such division may even now be gravely injurious to the minor section, if the consequent readjustments are not fully and frankly faced.

Before describing in some detail the life history of the fiscal organism we know as the United Kingdom, and endeavouring to learn the conditions which must accompany its division if such division is to be followed by a healthy and vigorous development of the parts, it may be well to set out briefly the influence which "machine industry" has exercised in giving a definite organic structure to communities falling within the orbit of the same fiscal system.

Within our hypothetical community there are no artificial barriers to free exchange of commodities. A certain local

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"protection" is afforded by the cost or difficulty of transport, by the wide diffusion of the raw material of industry, by the varying degrees of enterprise in the people, by local custom, and so on. For the most part, however, under the system of factory production industry will settle in the more favourable locality, the conditions being governed by the proximity of coal and iron, the nearness of a port, the special suitability of climate, the availability of skilled labour. Where the products of such industry compete with local industry, the latter must decay.

We find therefore in our community, as the factory system develops, a growing heterogeneity of condition. Village industry declines, and leaves the "rural" districts more and more restricted to agriculture. Manufacture becomes concentrated in special localities, the process being marked by the growth of great urban centres. Rural industries decay, and population flows from the country to the town. The concentrated productivity of the factory means a rapid accumulation of wealth. On the other hand, such surplus wealth as is produced in the agricultural areas finds its way to the industrial centres for investment. In theory no doubt there is employment for almost unlimited capital in agriculture; but in practice the amount of new capital sunk in agriculture is relatively small. The farmers' surplus profits go into the banks on deposit, or into Government stocks, or into the shares of public companies. Through whatever channel they flow, their ultimate reservoir is in the main the industrial or commercial centre. In this way the disparity of wealth between town and country is intensified. This process continues in a kind of geometrical progression. The town population increases until the industrial interests outvote the agricultural and bend the whole activities of the state to their own purposes. Just as industry dominates the fiscal policy of the state, so does the town set the "standard of living" for the whole, and calls for a vast expenditure in the methods and purposes of government which only the growing wealth of the towns can provide.

There may be social evils in this; but economically it is justifiable so long, and only so long, as the whole community is regarded as a unit, all expenses of government throughout its range being a charge upon the surplus wealth of the community as a whole. The attempt to make each locality provide for its own community purposes out of its own surplus wealth would manifestly create such a diversity of conditions and inflict such intolerable injustice upon the rural parts of the country that the integrity of the country

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could only be maintained by force, and must sooner or later give way under the strain. So long then as an area falls within the limits of one fiscal system, the process of structural differentiation and specialization of function will continue; the interdependence of parts, of town and country, will become more pronounced; and the whole acquire more and more the characteristics of an organism, with all its advantages and its limitations. A stable existence can only continue so long as this organic interrelation of parts is recognized and maintained.

In spite of this tendency, a secure balance will exist between town and country if the whole system is isolated and self-contained, surrounded by a wall which permits neither export nor import. In such a closed circle (unless the area be vast) industrial development cannot proceed very far; and the agricultural interests need not fear subjection to the industrial. If such a closed community were possible, we might expect it to move towards a more and more ordered communal life, colourless and uniform, the civic virtues highly developed, individual ambition a disease of past generations.

A vast and immeasurable change takes place when the enclosing wall is broken down and commerce becomes possible with other countries. Industry finds open to it a boundless market for its goods and an unlimited supply of cheap food and raw material. Growing wealth begets the appetite for more. The increasing urban population renders the abundant food supply from abroad more and more essential. Foreign rivalry in the world market makes "cheap production" the fundamental necessity of the industrial community. The "towns" are no longer dependent on the "country"; and what sense of common interest may have existed in simpler industrial times is, on the part of the towns at least, submerged, if not destroyed, by the remorseless, soulless struggle in which industry is constantly engaged. The home farmer must take his chance in competition with the foreigner. If he can produce cheaply enough to find a market—well and good. If he cannot—still well and good. The factories must be supplied, and the towns must live!

Meanwhile the misery of the rural districts deepens. Labour is driven off the land into the towns. Agricultural capital fades away; and fresh capital seeks more promising fields. As rural prosperity declines, the expense of its system of government (always based more upon the standard of the town than upon the needs of the country) becomes even more oppressive. Lightness of heart gives place to

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despondent gloom. A deepening shadow broods over the countryside, that must sooner or later find its kinship with the even more brutal desolation that haunts the submerged population of the towns. Then things may happen.

Meanwhile as the various interests in the state become more sharply defined, parties and policies make their appearance. The industrial magnate demands free import of goods and raw material, and (presently) a fiscal barrier to the import of competitive goods from abroad; claiming, justly enough, that flourishing industry and trade are good for the state. The landowner and the farmer call for a fiscal barrier to the import of food from abroad, but free ingress for farming machinery, &c., claiming, justly enough, that a flourishing agriculture is good for the state. The labouring population, so far as they can think at all, are torn between these conflicting interests, and settle as a whole on the demand for the free import of everything, claiming, justly enough, that a flourishing working class is good for the state. In this struggle the towns must conquer. The strength both of wealth and population is with them. So far as the "country" is concerned the conflict will have little result beyond giving a definite direction to its growing resentment.

The fate of the rural districts is however various. Some parts are so favourably situated that they find an even better market than before in the growing towns.

Other parts, however, handicapped by remoteness from the urban centres, burdened by want of capital and enterprise, unfavourable climate and unproductive soil, must sink into the deepest distress.

Where a large defined area in the state suffers specially in this way, there must grow up among its people bitter anger against the remainder of the state, indiscriminate, unthinking, which may lead easily enough to civil discord. If, in addition to this, the people in this distressed area are sharply separated from their fellow countrymen by geographical isolation, by race, by tradition, by religion and language, and by a sense of distinct nationality, civil discord is inevitable; and there must come, sooner or later, a demand to be freed from the bonds which have brought about their misery and decay.

Here we have in brief outline the economic history of Ireland. This history we may now proceed to illustrate by reference to the various aspects of the economic life of the country during the past fifty or sixty years.

The most noticed, if not the most important, fact in

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recent Irish history is the phenomenal decline in the population. It is often remarked that Ireland is the only country in Europe in which the population has declined during the past half century, and that this in itself is evidence of mis-government. This is but one of many instances in which Ireland is treated by rhetoricians as a "country" for some purposes and merely "part of a union" for others. It cannot be too frequently stated that for all economic purposes Ireland has not been "a country" during the past century; and the decline in the population, which would have been phenomenal in a country living an independent fiscal life, ceases to have that unique distinction when it is merely part of a larger fiscal area. The reference to mis-government is also misleading. Mis-government there has doubtless been; but is there any country in Europe of which the same could not be said? If the numerical decline of the population can be accounted for as the normal consequence of economic conditions it can only confuse to introduce political matters which stir passion as easily as they blind judgment.

The following figures show the growth of the population of the "fiscal unit," the United Kingdom :

<i>Area</i>	<i>Population in Millions</i>						
	1851	1861	1871	1881	1891	1901	1911
U. Kingdom ..	27	29	30	35	38	41	45

Here, measured in terms of population, we have the effect on the "fiscal unit" of intensive industry, producing for a world market, and drawing its supplies of food and raw material freely from every quarter of the globe.

Not only has the population grown. It has become differentiated. Throughout most of the area of the "unit" agriculture has become the main, almost the sole, occupation of the people; and the population has remained sparse, in parts even less dense than before. On the other hand, in the industrial areas the population has grown at a rate that beggars the imagination, concentrated in vast masses in areas so small as to be almost negligible.

This differentiation may be shown in its broader aspects by the tables on the opposite page.

It should be remembered that the counties in which this growth has been so pronounced are themselves mainly agricultural, the increase in number being for the most part

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Area	Population in Thousands						
	1851	1861	1871	1881	1891	1901	1911
London (admin. County) ..	2,363	2,808	3,261	3,830	4,228	4,536	4,522
Lancashire ..	2,070	2,468	2,852	3,489	3,960	4,159*	4,527*
Yorkshire ..	1,797	2,036	2,440	2,889	3,212	3,067*	3,266*
Durham ..	399	517	693	875	1,024	871*	968*
Warwick ..	480	563	632	731	803	796*	856*
Northumberland	304	343	387	434	506	488*	572*
Staffordshire ..	633	772	882	1,012	1,109	1,042*	1,139*
Glamorganshire	240	326	405	518	692	715*	915*
Leicestershire ..	530	632	765	904	1,046	1,339	1,447

* Urban. † Rural.

represented by the enormous urban populations. Some idea of this may be gathered from the following figures :

Area	Population in Thousands						
	1851	1861	1871	1881	1891	1901	1911
London (see above)							
Liverpool ..	376	444	493	553	518	704	746
Manchester ..	303	339	351	402	505	644	714
Birmingham ..	233	296	344	437	478	523	529
Leeds ..	172	207	259	309	368	429	446
Sheffield ..	135	185	240	285	324	409	455
Bradford ..	104	106	146	194	216	280	288
Newcastle ..	88	109	128	145	186	247	267
Glasgow ..				511	658	760	784
Edinburgh ..	160	168	197	228	261	298	293
Belfast ..	87	122	174	208	256	349	387

To make a true comparison of these figures we should take account of the extension of the urban boundaries. After making allowance for this, however, and taking into consideration the fact that there is a dense population surrounding each of these and not included in the figures, we have a growing concentration of humanity that almost passes belief.

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The picture would not be complete unless we note also the state of things at the other end of this movement. As has been noted, the growth of the factory system and the free entry of foreign products left the agricultural areas of our fiscal unit to struggle against the competition of the world; and, as a consequence, the less favourably circumstanced parts of the country, unable to cope with such misery, fell into decay. Some extreme instances of this may be shown here:

Area	Population in Thousands						
	1851	1861	1871	1881	1891	1901	1911
Cornwall ..	354	365	358	327	319	136* 187†	144* 184†
Carnarvonshire	95	104	111	124	126	58* 68†	58* 67†
Sutherlandshire	26	25	24	23	22	21	20
Mayo	274	255	246	245	219	199	192
Kerry	238	202	197	201	179	166	160

* Urban. † Rural.

We have dealt here with the United Kingdom as a whole, as *the fiscal unit*. In no other way could the true nature of the Irish problem in its economic aspects be understood. There stands out before us the picture of a vast regrouping of population. From a relatively uniform dispersal of the people we see enormous multitudes crowded in the coal and iron districts, at the seats of Government and the great ports, a relatively stable population in the nearer rural areas, and, in the remoter parts, a dwindling that almost threatens extinction.

Bearing in mind that Ireland is, economically, merely a part of this larger unit, sharing for good or ill this organic movement, we may turn to Ireland in particular, and see in what way this organic growth has affected it.

Area	Population in Millions						
	1851	1861	1871	1881	1891	1901	1911
England and Wales ..	17.9	20.0	22.7	25.9	29.0	32.5	36.0
Scotland ..	2.8	3.0	3.3	3.7	4.0	4.4	4.7
Ireland ..	6.5	5.7	5.4	5.1	4.7	4.4	4.3

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It is clear that Ireland as a whole has shared the fate of the remoter parts of Great Britain. Distinguishing the Dublin and Belfast areas, the two great local condensations of population, we have these figures :

<i>Area</i>	<i>Population in Thousands</i>						
	1851	1861	1871	1881	1891	1901	1911
Ulster (without Belfast area)	1,330	1,236	1,136	1,049	919	831	796
Leinster (without Dublin area)	1,267	1,047	934	860	775	704	685
Munster ..	1,857	1,513	1,393	1,331	1,173	1,076	1,035
Connaught ..	1,010	913	840	821	719	646	610
Belfast area (including Belfast Co. Boro), Antrim and Down ..	681	678	697	694	700	349* 402†	381* 404†
Dublin City and County ..	405	410	405	418	416	290* 158†	305* 172†

* Urban.

† Rural.

The following figures will also be of interest :

Emigration from each Province in 1914.

<i>Emigrants from</i>	<i>Males</i>	<i>Females</i>	<i>Total</i>	<i>Rate per cent.</i>
Leinster	1,648	1,212	2,860	13.9
Munster	2,953	2,699	5,652	27.5
Ulster	3,485	3,127	6,612	32.1
Connaught ..	2,574	2,616	5,190	25.2
Other nationalities	207	62	269	1.3
Total ..	10,867	9,716	20,583	100.

Outside the limits of Belfast and Dublin we have the same story of decline in each province. It is clear that the downward drift of the population is not due to the peculiar features of any one district or any one section of the people. The movement is so uniform that we must seek the controlling influence in some fact common to the whole. We need

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seek no further for a common cause than the inclusion of the whole country in the fiscal orbit of Great Britain, the remoteness of the country from the great centres of population, and the absence throughout of those conditions (abundant native iron, coal, &c.) favourable to industrial growth.

Not only has the actual number of persons engaged in agriculture decreased, but so also has the number engaged in industry. This is what the views already expressed would have led us to expect. The following extract from the evidence of the Registrar General for Ireland before the Committee on Irish Finance in 1911 is of interest in this connection :

Qn. 2545. Is not the emigration almost entirely from the rural districts?—In a great proportion it is.

Qn. 2546. The change in manufacturing methods has had a good deal to do with that, has it not? —I should say so.

Qn. 2547. Before the great factories were as thoroughly developed as they are now, were not a great many small local factories and individual workmen scattered over Ireland?—That is so.

Qn. 2548. You had spinners and weavers in every little town and every little village?—Yes.

Qn. 2550/5. Then you had cabinet makers in every town . . . and local carpenters and joiners . . . then the blacksmith did a great deal not merely in shoeing horses but in making machinery, &c. . . in that way a very large number of people were scattered over Ireland in every direction . . . the big factory with its big machinery has crushed out all these men?

To all of which questions the answer is "Yes."

We have therefore some reason for saying that the result to Ireland of its inclusion in the fiscal orbit of Great Britain has been a falling population, a decaying agriculture, and the destruction of much of its local industry. Whether these consequences would have followed if there had been full recognition of the fact that a fiscal organism has definite responsibilities towards all its parts we need not stop to inquire.

Political feeling has played little (if any) part in this economic decline. Its real influence has appeared in turning the Irish emigrant towards the West instead of the East.

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Side by side with the concentration of population is the concentration of wealth. In both cases, Ireland, regarded as a distinct area, suffers from its inclusion in the fiscal orbit of Great Britain; and the economic drain is more serious (because less easily arrested) than the decline in the numbers of the people. The "economic drain" falls roughly into three classes:

(1) The payment of rent, &c., to absentee landlords and others, a disadvantage common to all parts of the United Kingdom that are remote from the great centres of social life.

(2) The transfer of the surplus wealth of the country to the industrial areas for investment.

(3) The competition of the centralized industries in Great Britain, which hinders the development of industrial life in Ireland.

It is impossible to give any exact measure of this drain. There are, however, sufficient indications of its existence and its magnitude.

"It must be remembered," reads the Report of 1896, "that many owners and mortgagees of Irish property live in Great Britain and draw their rent and interest into that country."

It is a well-known habit of the Irish farmer class and of the small traders to place their surplus profits on deposit in the banks. Although some of this money is used locally in advances to traders and others, there is little doubt that the bulk of it finds its way to Belfast and Dublin or into England for more profitable use.

In the evidence of the Secretary of the Estate Duty Office before the 1911 Committee the following passages occur:

Qn. 556. . . . There is more duty paid in Ireland on British property than is paid in Great Britain upon Irish property.

Qn. 557. That is what we would expect, I think; I mean there are not a great many enterprises in Ireland of an industrial kind producing a large income in which people invest?—No, there are not.

Qn. 558. Whereas any Irishman who does invest is more likely than not to invest in British stock rather than in Irish stock?—Yes.

The figures of the Income Tax Assessments afford striking evidence of the "distribution" of wealth. The assessments on lands have varied little in either country for very many years. In Ireland the value is practically fixed at a per-

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manent figure; but in Great Britain it is revised periodically. The fact that there has been no important change in gross (in spite of local fluctuations) illustrates the statement that the vast growth of British wealth takes place in the urban areas.

As we might expect from the population figures there has been a great increase of wealth in the form of houses. The principal increases are given year after year as occurring in Greater London, Lancashire, Yorkshire, Warwick, Durham, Lanark, Glamorgan.

Or we might compare the growth of incomes assessed under Schedule D.

Gross Amount of Income Charged—in Thousands £

<i>Year</i>	<i>England</i>	<i>Scotland</i>	<i>Ireland</i>
	£	£	£
1884	250,139	31,011	10,186
1899	374,947	45,390	12,202
1904	438,582	52,768	13,215
1909	486,704	55,418	16,483
1914	634,579	72,160	17,748

After making every possible allowance for assessments made in England in respect of business partly carried on in Ireland and other necessary adjustments, it remains evident enough that the industrial wealth of Ireland is practically stagnant as compared with that of Great Britain.

Here again we find the principal increases in London, Lancashire, Yorkshire, Lanark, Glamorgan, Warwick and the other great industrial districts. Ireland has its own concentration, broadly indicated by the fact that the income tax assessed in Belfast County Borough and in Dublin County Borough exceeds that of the whole of the rest of Ireland.

It is unnecessary to pursue this point farther. Enough has been said to show that as a part of the fiscal unit of the United Kingdom, and very largely as a consequence of its inclusion therein, Ireland has suffered positively by a direct drain of population and wealth, and negatively from the impossibility of any wide industrial development in face of the overwhelmingly advantageous position of her wealthy partner.

We may now glance at the vexed question of "Imperial" and "Local Services."

Broadly speaking, "Imperial Services" have been treated

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as those services which are not literally confined to one of the distinct "countries" comprised in the Union, e.g. National Debt, Civil List, Army and Navy, and Civil Government generally. "Local Services" are those which are limited to the particular area, e.g. Education, Poor Relief, Police, Legal Establishment, and Local Government.

The distinction is unjust to the "sub-dominant partner," and should be swept away. The point is one that applies equally to "Local Taxation" and to "National Taxation." In practice it is found impossible to maintain this distinction; and its asperities are softened by grants-in-aid of various kinds, sometimes directly (as in Education), sometimes indirectly (as in the case of the Agricultural Rates Act). This situation is due to the fact that the inevitable economic consequences of fiscal union involve responsibilities of the whole towards the parts, measured by the economic disadvantage caused by such union. Possibly the failure to recognize this responsibility of the wealthier section to the poorer, of the town to the country, is not unconnected with the fact that the wealthier and more populous part controls the Legislature.

Community Services of equal efficiency are inevitably more expensive per head in the wide and sparsely peopled country than in the densely populated towns. The cost of many of the services is directly related to the element of area, and not solely to the number of people concerned. Road making, drainage, water supply, public lighting, police, post office, transport are all affected in that way; some to such an extent that the cost of the service is prohibitive. Other matters, such as education and poor relief, are more costly when small numbers are involved, as a village industry is more costly per unit produced than that of the highly organized factory. Fiscal union intensifies this evil so far as it favours the town at the expense of the country by draining population and wealth from the one to the other. The evil is still further aggravated by the fact that the sphere of Community Services (or Governmental interference and control) extends as the industrial development of a country proceeds, while the standard of expenditure set by the town is in considerable measure made inevitable for the country. If it is borne in mind that the "agricultural partner" might have secured a better industrial development, and have retained within itself much of the wealth so created had it enjoyed a fiscal system of its own, we can hardly resist the conclusion that its "sacrifice" calls for adequate recognition; and that, if such recognition is withheld, there must inevit-

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ably, sooner or later, arise a demand for a return to fiscal independence.

There is a further question of serious importance. Is it in the best interests of a community that its people should crowd the towns and desert the country? It cannot be doubted that this process involves social consequences of the utmost gravity transcending in importance the narrower question of productive efficiency. The evil of one-sided development in the industrial partner is reflected in that of the agricultural partner. A healthy national development is impossible in either case.

It is unnecessary to dwell here upon the character and cost of the "Irish Services," the enormously expensive Civil Government and police, the inferior education, the poor railway services, the excessive cost of transport of agricultural produce to the English markets, the ill-maintained roads, the shocking slums, the widespread poverty of Dublin and other parts. These matters have been treated frequently enough in writing and in speech.

Certain fundamental aspects of the Irish problem should now appear plain enough.

We are justified on the evidence in asserting that the material condition of Ireland is almost wholly due to economic causes. Minor factors there doubtless are, as for example the character of many of the people. A competent Irishman has written,¹ "The impartial observer will I fear find amongst a majority of our people a striking absence of self-reliance and moral courage; an entire lack of serious thought on public questions; a listlessness and apathy in regard to economic improvement which amount to a form of fatalism . . . and this too amongst a people singularly gifted by nature with good qualities of mind and heart."

The same writer, however, suggests that this condition is itself (in part at least) a result of the arrested economic development of the country. "Isolated, the Irish farmer is conservative, sceptical of innovations, a believer in routine and tradition. In union with his fellows, he is progressive, open to ideas, and wonderfully keen at grasping the essential features of any new proposal for his advancement."

All this may be true. It is no doubt equally true that had these features in the Irish character been strengthened and the general education improved, the economic evil might have become less pronounced. Nevertheless, no change in

¹ "Ireland in the New Century" (p. 110).—Sir Horace Plunkett.

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character and education could do away with the enormous competitive advantage of Great Britain in industrial matters, or stop the drain of life and wealth from which Ireland has suffered.

The establishment of a Parliament in Dublin is now generally regarded as an essential factor in the peaceful development of the country. This is doubtless necessary as a condition precedent to change. Parliament, however, is a machine; and self-government an inspiration and a stimulus. The mere institution cannot of itself remove evils which owe their origin in the main to purely economic causes. The future of Ireland must depend upon the ability of the Irish Parliament to achieve its ends under the present economic system, or to secure such a modification of that system as may render its objects attainable.

The financial provisions of the 1914 Act and the amending Act need not be discussed here. They are admittedly of a temporary character; and it is no doubt wise that no final settlement of the fiscal policy of Ireland should be made until the Irish Government has "found its feet," and a definite national policy has evolved. The time, however, will come when the problem must be faced; and it is well that that fact should be recognized from the beginning.

National policy and fiscal policy are indissolubly related. The Irish people will have to determine whether Ireland is to be an agricultural annexe of Great Britain, or whether it is to develop a many-sided and healthily-balanced life of its own. It is certain enough that the Spirit of Irish Nationality can never be satisfied until there is in Ireland itself scope for the exercise of the varied talents and ambitions of its people; and this necessitates something more than an agricultural life. Mr. J. Milne Barbour, then President of the Belfast Chamber of Commerce, stated before the Primrose Committee in 1911 that, "So far as any evidence exists, popular sentiment in Ireland certainly goes in favour of the extension of Irish industries. . . . The sentiment is decidedly growing; there is an organized movement now to support such a sentiment . . . that movement began in the South and West. . . ." Sir H. Plunkett has written, "The true lesson to be drawn from foreign analogies is that not by agriculture alone is Ireland to be saved"; "The interdependence of town and country and the establishment of the proper relations between their systems of industry and education is a prime factor in Irish prosperity." Elsewhere

¹ "Ireland in the New Century" (p. 186).

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he refers to "The growing recognition of the fact that the path of progress lies along distinctly Irish lines, and that otherwise it will not be trodden by the Irish people. . . . Ireland must be re-created from within."

Not only is there a widespread and a growing belief in the development of Irish industry, arising partly from a laudable national sentiment and partly from a reluctance to remain so dependent on others for many of the requirements of life, but it is obvious that there can be no economic salvation for Ireland without it.

There is at present a very proper demand for a better system of education. The inevitable result must be that many of the brightest intellects of the country will seek a career elsewhere unless they find sufficient opportunities at home, opportunities that can only exist with well-developed industrial and intellectual life. Without that, the drain of ability must continue.

Agriculture will never attain its maximum prosperity unless its produce can be marketed profitably in the large centres of population. This needs cheap and efficient transport; and railways cannot offer low rates and adequate service in a country which does not possess a developed industry and a large population of its own.

The growing activities of the State demand a growing surplus of wealth to be used for State purposes; and unless Ireland is content to remain for ever a receiver of grants from Great Britain, such needed surplus can only be obtained from the industrial development of the country. "The condition of our agrarian life," writes Sir H. Plunkett, "clearly indicates the necessity for supplementing voluntary effort with a sound system of State aid to agriculture and industry—a necessity fully recognized by the Governments of every progressive continental country and by our own colonies."

Ireland, like most other states, will need to borrow money, and must therefore build up a public credit. "When Ireland gets the management of her own affairs," said Mr. Gladstone in 1886, "I venture to prophesy that she will want for useful purposes . . . to borrow money. But the difficulty of that operation will be enormously higher or lower, according to the condition of her public credit." A progressive industry is the necessary foundation for such public credit.

The problem of securing industrial as well as agricultural development has been answered by "Tariffs" in the Colonies and most other countries. There is, however, a wide disapproval of such a solution of the Irish problem, although

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the necessity for developing Irish industries is fully recognized, as is also the fact that small home industries must in time give way before the competition of highly organized factory industries."

Before the 1911 Committee Mr. Ennis, representing the Irish County Councils, said, "I do not claim in any way that an Irish Parliament should frame the tariff of duties on anything. . . . I do not think that any thinking Irishman would suggest anything in the nature of tariff adjustments as against Great Britain."

Before the same Committee Lord MacDonnell said, "I would not establish an Irish independent financial system. I would keep the Irish financial system dependent and an integral part of the financial system of the United Kingdom. . . . Within that limit I would give the fullest local government to Ireland." In response to the question, "Do you not think that it is important to secure to Ireland control over the imposition of its taxation?" he answered, "I think it is too late to introduce a differential taxation between England and Ireland, I think it is much too late. I think our endeavour should be to take the question on the other side—to endeavour to improve the condition of Ireland, and not to introduce differential taxation." This view, whether right or wrong in its practical effect, seems to contemplate Ireland as a "poor relation" whose condition must be "improved" by drafts from the richer purse; or, from the most favourable point of view, that the principles of the single fiscal organism should now be applied. That would have been admirable in earlier times; but the grant of Self-Government makes that policy impracticable.

The truer view, based upon the conviction that the Irish Question is something more than a matter of pounds, shillings and pence, was that expressed in Lord Farrer's report in 1896. "One sure method of redressing the inequality which has been shown to exist between Great Britain and Ireland would be to put upon the Irish people the duty of levying their own taxes and of providing for their own expenditure, leaving to the wisdom of Parliament to decide the question of contribution out of Irish taxes to the Imperial Exchequer. We appreciate to the fullest extent the objects of those statesmen who at and since the Union have laboured to remove all fiscal barriers between the two countries and to make taxation the same in both. But the circumstances of the two countries have diverged so widely since the Union as to lead to consequences which they did not foresee, and so as to compel us, though not without great reluctance, to admit that these objects may

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be too dearly purchased. If it is objected that the course which we suggest may lead to the imposition of new customs duties in Ireland, we might reply that in this case, as in that of the Colonies, freedom is a greater good than free trade. We doubt, however, whether Irishmen, if entrusted with their own finance, would attempt to raise fiscal barriers between the two countries; for we are satisfied that Ireland and not Great Britain would be the loser by such a policy."

The last sentence seems to fall short of a full recognition of the meaning of Irish National development. In any case, however, the character and direction of that development is in the main a question that Ireland herself must deal with.

This is the great economic problem which will face an Irish Parliament. It is because the future of that country is so inextricably bound up with it that Ireland claims to be free to decide for herself what her national and economic policies shall be.

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